COMMERCIAL POLICY IN THE INTERWAR PERIOD:

INTERNATIONAL PROPOSALS AND NATIONAL POLICIES

LEAGUE OF NATIONS
GENEVA
1942

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ECONOMIC, FINANCIAL AND TRANSIT DEPARTMENT

COMMERCIAL POLICY IN THE INTERWAR PERIOD:

INTERNATIONAL PROPOSALS AND NATIONAL POLICIES

PART I
AN HISTORICAL SURVEY

PART II
AN ANALYSIS OF THE REASONS FOR THE SUCCESS OR FAILURE OF INTERNATIONAL PROPOSALS

LEAGUE OF NATIONS
GENEVA
1942

Publications of the Economic, Financial and Transit Department of the League of Nations

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Monthly Bulletin of Statistics

Statistical Year-Book of the League of Nations

Money and Banking, 1940-42

World Economic Survey, 1939-41 and 1941-42

Europe's Trade

The Network of World Trade

Wartime Rationing and Consumption

Prosperity and Depression (Revised and Enlarged Edition)

Economic Fluctuations in the United States and the United Kingdom, 1918-1922

A summary description of the contents of the above publications is given in the back pages of this volume

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PREFACE

This volume on commercial policy constitutes a part of a general programme of studies devoted to problems likely to prove important in connection with the formulation, now or later, of economic polices for the post-war world.

In his *Report on the Work of the League, 1941/42*,[1] the Acting Secretary-General explains the principles on which this undertaking is being conducted. "If the objectives of the 'Atlantic Charter' that 'all the men in all the lands may live out their lives in freedom from fear and want' are to be realized, post-war policies must be thought out in advance and the lessons to be learnt from past experience must be learnt." In the execution of the programme of studies relating to post-war economic and financial problems, "three guiding principles are being kept constantly in mind. These principles may be briefly summarized as follows:

"(a) Every day is creating its to-morrow; the future must inevitably be built on the past. But before that building is planned and projected, we should ascertain what were the causes that led to failure—or success—in the recent past, learn and apply the lessons that may be deduced from the past. It is not sufficient to know the facts; we must know their causal relationships and be able to indicate, from the evidence of the past, not the final objectives that must be the expression of collective human will, but the roads by which this or that objective may or may not be reached.

"(b) Such evidence as to the past must itself be supported by an adequate basis of fact, and the essential information should be so collated and analysed as to allow those responsible for the formulation of policy to frame their own judgment on them.

[1] League of Nations publication: General 1942. 1.

"(c) While the future that lies before us is veiled, the core of the social and economic issues of that future is likely to be the problem of social security; we know, too, that inherent in the organization of modern society are dynamic forces conducive to instability. Two groups of such forces may be distinguished: those that lead to fluctuations in economic activity with their train of depressions, stagnation and unemployment, and those that have their origin in demographic pressure or the demographic pattern of society. The continued existence of these forces may be postulated and no social stability can be assured until we have learnt to deal with them. The means by which such control may be rendered effective must therefore constitute the central thread of all constructive thinking for the future and all policies must be considered in the light of their probable effect on economic stability, on demographic conditions, on social security."

The League Economic and Financial Committees,[1] to whom a number of draft studies were submitted, recommended that when feasible, "the results of the Department's enquiries should be published and made available to all interested with the least possible delay." It has been thought well to begin with commercial policy and international trade. One volume, on *Europe's Trade,* has already been published and a companion volume entitled *The Network of World Trade* will be published simultaneously with this pamphlet. The purpose of the analysis of *Europe's Trade* is "to consider what was the part played by Europe in the trade of the world, how far Europe was dependent upon external markets and external markets dependent upon her, to estimate the importance to her of what, in the absence of a better term, is known as Empire trade, and to illustrate the commercial and general economic interdependence of different parts of the continent."

The Network of World Trade is wider in scope and, although it deals with similar questions regarding other geographical or political areas, is primarily concerned with the essential unity of world trade, with the specific pattern it had assumed and with the multilateral system by which all classes of international ac-

[1] Economic and Financial Committees: Report to the Council on the work of the Joint Session, London, April 27th-May 1st; Princeton, N. J., August 7th-8th, 1942. League of Nations publication, 1942. II. A. 4.

counts were settled. Both of these volumes therefore fall under the second of the guiding principles explained in the Acting Secretary-General's report quoted above. But, while they are thus factual, statistical studies, from the facts summarized conclusions are drawn.

The purposes of the present study of commercial policy in the inter-war period are indicated in the introduction to Part II. They are to compare the commercial policies pursued by States in the inter-war period with the recommendations made by international conferences and committees, whether official or unofficial, to consider the reasons for the frequent discrepancy between the policies recommended and the policies actually pursued and in general for the success or failure of the recommendations made, and finally to draw from this twenty years experience lessons that it is hoped may be of value for the future.

The study falls into three parts; first, a simple historical record of the policies advocated and the policies pursued; secondly, the analysis of the causes of the success or failure of international action or proposals and, thirdly, a summary of conclusions. The first and second parts are self-contained. Those who have not the time or inclination to study the whole historical record will find the analysis of causes comprehensible without, or with but occasional, reference to it. The conclusions—necessarily tentative in character—on the other hand are based on the analysis contained in Part II and do not extend beyond the area of that analysis. As already stated, further conclusions based on supplementary evidence and relating to other aspects of commercial policy and phenomena will be found in *The Network of World Trade.*

A. Loveday
Director of the Economic, Financial and Transit Department

League of Nations
September, 1942.

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PART I

AN HISTORICAL SURVEY

CHAPTER I

EQUITABLE TREATMENT AND THE REMOVAL OF ECONOMIC BARRIERS, 1918-1921

1. The Fourteen Points, 1918.

The third of President Wilson's Fourteen Points was "the removal so far as possible of all economic barriers and the establishment of an equality of trade conditions among all the nations consenting to the Peace and associating themselves for its maintenance".

The latter of these propositions was explained to mean "no restriction upon the free determination by any nation of its own economic policy, but only that, whatever tariff any nation might deem necessary for its own economic service, be that tariff high or low, it should apply equally to all foreign nations."[1]

Discriminating tariffs had been a feature of the commercial policies of France, Germany and other European States prior to 1914 and, during the war, both groups of belligerents had formulated programmes implying the continuation of restrictions and discriminations against enemy countries after hostilities had come to an end (Vienna Declaration 1916: Resolutions of the Allied Economic Conference, Paris, 1916).

2. The Covenant of the League of Nations, 1919.

In the course of drafting the League Covenant, the question of inserting a clause guaranteeing "equality of trade conditions" was long considered. The United States Delegation put forward a draft declaration on the subject, to be adopted by all Members of the League as an annex to the Covenant; the United Kingdom Delegation submitted a draft convention guaranteeing "just treatment for the commerce of all Members of the League."[2] Agreement was finally reached on a clause weaker than these

[1] President Wilson to Senator Simmons, October 1918. Quoted in *History of the Peace Conference of Paris,* H. W. V. Temperley. London, 1921. Volume V, page 61.

[2] See D. Hunter Miller, *The Drafting of the Covenant,* New York, 1928, Volume II.

drafts both in form and substance and qualified by a limitation designed to meet the apprehensions of France and certain other European allied countries.[1] This clause, which appears as part of Article 23 of the Covenant, reads as follows:

> "Subject to and in accordance with the provisions of international conventions existing or hereafter to be agreed upon, the Members of the League:
>
> . . . .
>
> "(e) will make provision to secure and maintain equitable treatment for the commerce of all Members of the League. In this connection, the special necessities of the regions devastated during the war shall be borne in mind."

Under another article of the Covenant (Article 22), "equal opportunities for the trade and commerce of other Members of the League" were guaranteed in the principal categories (A and B) of mandated territories. The application of this guarantee, inserted in the various Mandate Charters subsequently drawn up, was placed under the supervision of the Mandates Commission of the League.

The question of securing agreement in regard to the "removal of economic barriers" was never considered at the Paris Conference. In the great majority of countries represented, there was no disposition at that time to limit national freedom of action in regard to trade policy. A high protectionist tendency, moreover, was widespread and strong, not least in the United States.

3. The Peace Treaties, 1919.

The Peace Treaties contained numerous provisions affecting the commercial policy of defeated Powers and certain newly created States. These provisions were mostly of short currency, in no case exceeding five years. The most important were the unilateral undertakings given by Germany, Austria, Hungary and Bulgaria to grant the Allied and Associated Powers, for 5 years in the case of Germany and 3 years in the case of the others, unconditional most-favoured-nation treatment.

In reply to a protest by the German Government, the Allied and Associated Powers expressed their own intention to "bring into application when the world returns to normal conditions"

[1] For the various stages in the fading-out of President Wilson's original proposals, cf. William E. Rappard; *Post-War Efforts for Freer Trade,* 1938.

the principles laid down by President Wilson and embodied in Article 23 e) of the Covenant.[1] (See Chapter V, §3 below on the Most-Favoured-Nation Clause)

Austria and Hungary were permitted (Treaties of St. Germain and Trianon) to enter into a special customs regime with each other and/or Czechoslovakia for a period not exceeding 5 years. This clause remained a dead letter. Between 1922 and 1925 the League Economic Committee endeavoured without success to bring about limited preferential agreements between Austria and some of her neighbours; negotiations for this purpose between Austria and Czechoslovakia in the latter year came to nothing.

The Minorities Treaties concluded with Poland, the Serb-Croat-Slovene Kingdom, Czechoslovakia, Roumania, and Greece contained a clause under which the country concerned undertook to take no action which might "prevent her from joining in any general agreement for the equitable treatment of the commerce of other States that may be concluded under the auspices of the League of Nations within 5 years of the coming into force of the present Treaty" and to "extend to all the Allied and Associated States any favours or privileges in customs matters which she may grant during the same period of 5 years to any State with which since August 1914 the Allies have been at war or to any State which may have concluded with Austria special customs arrangements as provided for in the Treaty of Peace to be concluded with Austria."[2]

Apart from a prohibition on the raising of certain conventional duties for 3 years, Germany was at liberty to modify her tariff six months after the coming into force of the Treaty of Versailles.

4. The Supreme Economic Council, 1920.

The first practical step to be taken towards restoring international trade after the War was the demobilisation of war-time controls—exchange controls and prohibitions on imports and exports. Outside Europe and in several European countries, including the United Kingdom, the Netherlands, Belgium and the Scandinavian countries, such controls had been very largely re-

1 Reply of the Allied and Associated Powers to the Observations of the German Delegation on the Conditions of Peace, Part X. 1. Misc. No. 4. 1919. pp. 42-3. Cmd. 258.

2 Text taken from the Treaty with Poland.

moved by the end of 1919. In other European countries, the return to relatively unrestricted trading conditions was somewhat slower. In Italy and Spain substantial lists remained in force even after the introduction of new and higher tariffs in 1921 and 1922 respectively. In France, quantitative restrictions were in principle abandoned in 1919, but long lists remained; these were added to in 1920 and 1922. Switzerland, after demobilizing most of its war-time measures, re-introduced a permit system for numerous imports in 1921.

But the core of the problem lay in Central and South Eastern Europe, where trade had practically ceased by the end of the war and was only gradually resumed, first on the basis of intergovernmental barter, then on that of general prohibitions modified by licence. Government import and export monopolies, more or less severe currency restrictions and export duties on farm products were also the rule.

In March 1920, the Supreme Economic Council recommended that

> "States which have been created or enlarged as a result of the war should at once re-establish full and friendly cooperation and arrange for the unrestricted interchange of commodities in order that the essential unity of European economic life may not be impaired by the erection of artificial economic barriers."

5. The Brussels Financial Conference, 1920.

In October of the same year the Brussels Financial Conference, the first international Conference called by the League of Nations, specifically endorsed the above recommendation of the Supreme Economic Council, adding that

> "Each country should aim at the progressive restoration of that freedom of commerce which prevailed before the war, including the withdrawal of artificial restrictions on, and discriminations of price against, external trade."

The Conference considered that "commerce should as soon as possible be freed from control and impediments to international trade removed" and that "attempts to limit fluctuations in exchange by imposing artificial control on exchange operations are futile and mischievous."

It emphasized that "the first condition for the resumption of international trade is the restoration of real peace, the conclusion of the wars that are still being waged, and the assured maintenance of peace for the future."

Among the specific reforms toward which the Conference recommended that the League's activities should be directed were the Assimilation of Laws relating to Bills of Exchange and Bills of Lading and the Suppression of Double Taxation.

The preparation of an international code relating to Bills of Lading was undertaken by the International Chamber of Commerce, the International Maritime Committee and the International Law Association; a draft set of rules, known as the Hague rules, was drawn up at a conference of the latter body in 1921 and formed the basis of an international Convention concluded as a result of two diplomatic conferences which met at Brussels in 1922 and 1923.

Regarding the work on Bills of Exchange and Double Taxation, see Chapter III, § 3 below.

6. The Portorose Conference, 1921.

In 1921, the Succession States of the Austro-Hungarian Empire signed a Protocol at Portorose the first article of which read as follows:[1]

> "The governments . . . . shall as soon as possible take the steps necessary to re-establish freedom of imports and exports in the relations between their several countries. In any case, they shall abolish all import prohibitions and restrictions on July 1st 1922 at the latest and shall before that date make arrangements among themselves to fix, by common consent, a date whereon all export prohibitions, controls, or other restrictions affecting the exportation of any merchandise shall be abolished. It is agreed, moreover, to avoid customs legislation which would establish customs duties or other taxes equivalent to actual export or import prohibitions."

[1] International Conciliation, No. 176. July, 1922.

The Signatories further agreed (Article 2) to enter into negotiations for the purpose of concluding commercial treaties "based, in principle, on commercial freedom," to issue no new prohibitions pending the complete abolition of the system and to grant one another most favored nation treatment in regard to the general conditions under which licences were issued.

It should be noted that, in this part of Europe, the whole pre-war commercial treaty system had been shattered, with the result that 1) the application of maximum duties was the rule rather than—as in pre-war days—the exception, 2) the legal protection against tariff discrimination embodied in the most-favored-nation clause had disappeared and 3) trade was exposed to uncertainties as regards not only tariff rates but also numerous formalities and regulations normally covered by commercial treaties.

The Portorose Protocol was not ratified by any of its Signatories nor can any substantial progress, along the lines that had been agreed upon, be recorded for several years. (See Chapter III, § 1 and IV, § 2 below).

7. The Council and the Assembly of the League of Nations, 1921. (Raw Materials Problem.)

By 1920, the scarcity of raw materials had become an international problem of the first magnitude. Action in one form or another by the League of Nations was widely demanded and specific appeals were made to it by various bodies, including the Governing Body of the International Labour Office, the International Federation of Trade Unions, the International Miners' Congress, and the International Parliamentary Commercial Conference.

At the instance of the Italian representative, the Council of the League (Tenth Session, October 1920), requested the newly-formed Economic Committee of the League to study and report on (1) the extent and nature of the requirements of countries which were experiencing difficulties in obtaining raw materials and (2) the causes of those difficulties.

The Committee, in its report to the Council of September 1921, reached the general conclusion that an international control of the distribution of raw materials (such as had been proposed by

Italy both at the Peace Conference and before the League Council and Assembly) was impracticable; and emphasized that a solution of the difficulties which many countries were experiencing should be sought mainly in greater freedom of world trade.[1] The Council (Fourteenth Session) commended to the consideration of Members of the League the conclusions of the report "especially those calling attention to the effects that may be produced by artificial restrictions and duties on the export of essential raw materials on the economic life of other countries."

A resolution in similar terms was adopted a few days later by the League Assembly (Second Session).

While the above enquiries were in progress, the general situation in regard to raw materials completely changed, scarcity being replaced by glut.

For later recommendations and action, see Chapters II, §1 (Genoa Conference), III, §2 (Prohibitions Conferences), IV (World Economic Conference), VIII, §3 (The Raw Materials Enquiry, 1936-37).

8. The International Chamber of Commerce, 1921.

The level of tariffs, to which no direct reference was made by any important official body except the Portorose Conference in the early post-Armistice period, was the subject of the following resolution of the London Congress of the International Chamber of Commerce, 1921:

> "While it is recognized that each nation has the right to protect its industries by means of customs tariffs against the unequal conditions of foreign production and exchange,
>
> "The London Congress specifically draws the attention of the various Governments to the importance of making such tariffs moderate, in order to avoid the erection between peoples of barriers which are obstacles to peace and the progress of civilization."

[1] League of Nations document C. 51. M. 18 1922. II.

CHAPTER II

THE GENOA CONFERENCE AND THE EARLY WORK OF THE LEAGUE OF NATIONS, 1922-1925

1. The Genoa Conference, May 1922.

This Conference was convened by the Supreme Council under a resolution adopted in January 1922 (Cannes Conference) which contained the following statement:

> "A united effort by the stronger Powers is necessary to remedy the paralysis of the European system. This effort must include the removal of all obstacles in the way of trade, and the provision of substantial credits for the weaker countries and co-operation of all nations in the restoration of normal prosperity."

The recommendations regarding commercial policy may be summarised as follows:

a) "The removal of obstacles created by instability in administrative and legal measures";

b) The publication of tariffs and efforts to render the nomenclature of tariffs as comparable as possible;

c) Tariffs to be made so far as possible applicable over substantial periods of time; "the practice of frequent modification for the purpose of economic warfare", the Conference declared, "should be entirely abandoned";

d) No duties, except purely fiscal duties, to be levied upon the export of raw materials; such duties, where they continue to exist, to be non-discriminatory;

e) The progressive suppression of import and export prohibitions, which "constitute at the present time one of the gravest obstacles to international trade"; the limitation of imports, where desired, to be "effected by the medium of customs duties";

f) The resumption of commercial relations on a basis of commercial treaties, "resting, on the one hand, upon a system of reciprocity adapted to special circumstances, and containing, on the other hand, so far as possible, the Most-Favoured-Nation clause." [1]

The Conference recorded that the general adoption of most-favoured-nation treatment was the goal aimed at by the majority of the participating States.

These resolutions were, it will be observed, less ambitious and radical than, for instance, the peace treaties as regards Austria, or the Portorose Conference; but like those adopted at Brussels, they were concerned with exactly those problems which were the centre of commercial policy controversy during the next eighteen years. A good deal was accomplished as regards the first point, and as regards the publicity of tariffs and, later, tariff nomenclature. The Economic Committee repeated the Conference's denunciation of tariff instability, urging that "changes in rates and classifications should be effected as seldom as possible and only when they are necessitated by the essential economic needs of the country."[2] The position in this respect improved somewhat with the restoration of currency stability, but was still serious at the time of the World Economic Conference of 1927. Substantial progress was made up to 1930 in liberating the trade in raw materials, in removing prohibitions, and in extending the operation of the most-favoured-nation clause; commercial treaties were gradually re-established, though on a short-term basis. After 1930 progress in all these directions ceased and there was a general reversal of policy.

In portraying these achievements and failures we can most conveniently begin by sketching the work of the Economic Committee of the League after 1922.

The League was requested by the Genoa Conference (i) to study dumping and differential prices, (ii) to continue its examination of methods of safeguarding the validity of arbitration clauses in commercial contracts, and (iii) to facilitate the execution of the resolutions regarding the publication of tariffs and the unification of customs nomenclature. On dumping and

[1] France and Spain abstaining. France had abandoned M. F. N. under law of 1919.

[2] League of Nations Official Journal, November 1922, p. 1403.

differential prices, no international action was attempted, but the wider price differentials gradually disappeared as currencies were stabilized. This failure to treat the problem of price adjustments as a general international issue was a fact of the utmost importance in the years that followed.

2. Work of the Economic Committee on "Equitable Treatment": Customs Formalities, Unfair Competition, Treatment of Foreigners, Unjust Discrimination.

The idea current at the Peace Conference of dealing with the many-sided problems of "equitable treatment" simultaneously by means of a general convention (see especially Chapter I, §3, above) was quickly abandoned. At the Barcelona Conference of March 1921—which made a notable contribution towards securing the first objective of Article 23 e) of the Covenant, namely the freedom of communications and transit—a memorial signed by the representatives of twenty-two States asked that "the attention of the Council and the Assembly of the League of Nations be called to the desirability of defining as soon as possible such principles as would assure equitable treatment of commerce."

The question was considered at the next session of the League Assembly and the Economic Committee was instructed to "consider and report on the meaning and scope of the provision relating to the equitable treatment of commerce contained in Article 23 e) of the Covenant" . . . . and to pursue its work . . . . in the manner best calculated to facilitate the earliest and most general application" of that principle.

This instruction reflected the view which had been so noticeable at the Peace Conference, that if Commerce were treated with equity, all would be well. International Conferences at this period were strangely reticent about the special economic problems to which the war (and the peace) had given rise, and when reference to such problems was made, it was almost always in terms of abstention from action (abolition of control, etc.), rarely of action.

The Economic Committee reported in March 1922 that "in view of the wide divergencies of opinion between different States, especially as to the conditions which would justify special treatment, they see no reasonable prospect in existing circumstances, particularly in view of the disorder in the currencies and the disorganization of the international exchanges, of arriving at a general international convention covering the subject as a whole. . . .

"The Committee therefore are of opinion that the most hopeful method of making useful progress at present is to explore separately certain branches of the subject which appear to offer the best prospects of securing international agreement."[1] They considered that while certain matters might form the subject of international agreements, others might better be advanced by bilateral or regional arrangements.

An important gloss was placed on the terms of Article 23 e) to the effect that the reference to the "commerce of Members of the League" gave no countenance, in the opinion of the Committee, to discrimination as between Members and non-Members as such. This position has been consistently maintained.

Practices violating the principle of equitable treatment, in regard to which there seemed to be some prospect of reaching general agreement, were grouped by the Economic Committee under the following headings:

Excessive, arbitrary or unjust custom formalities.
Unjust or oppressive treatment of foreign nationals, firms, and companies.
Unfair competition by means of fraudulent trade practices.
Unjust discrimination against the commerce of any State.

It will be observed that in accordance with its instructions, the Committee at this stage devoted its attention to a narrower field of subjects than the Genoa Conference, but at the same time enlarged greatly on the first of the major questions raised by that Conference. It is both logically and historically convenient to consider these four equity points first.

(a) *Customs Formalities.*

The Committee considered "excessive, arbitrary or unjust customs formalities" as amongst the most serious of the administrative impediments to trade to which the Genoa Conference had referred.

[1] League of Nations, Official Journal, June 1922, p. 625.

A diplomatic conference called by the League in October 1923 resulted in the conclusion of an International Convention, based on a draft worked out by the Economic Committee in consultation with national customs administrations and the International Chamber of Commerce.

This Convention, which came into force in 1924 and was ratified by over 30 States[1] (see Annex), provided:

(a) for the publication of customs regulations in simple and accessible form and the immediate publication of changes in tariffs or formalities;

(b) for the simplification of rules and procedure;

(c) for greater expedition in the application of regulations;

(d) that formalities should not be used for purposes of discrimination;

(e) for appropriate redress;

The Parties bound themselves to reduce "as soon as circumstances permit" their export and import prohibitions and restrictions to the smallest possible number (see Chapter III below) and where a licencing system was maintained, to observe the above principles.

Greater facilities for commercial travellers were guaranteed (e. g. the abolition, except in special circumstances, of consular visas) and the formalities regarding "certificates of origin" of goods simplified.

The simplification of formalities relating to the passage of goods through the Customs, the examination of travellers' luggage and the regime of goods in bond was recommended.

Reporting in 1927, the Economic Committee referred to the "striking progress which has been made under the influence of the Convention both as regards the clauses which have a binding character and those which are merely in the nature of recommendations. . . . The Geneva Convention has been attended with the most fortunate results."

[1] But by the Danubian and Eastern European States (except Austria and Roumania which ratified in 1924 and 1925 respectively) only after several years. For technical reasons, no American State except Brazil has ratified the Convention. Many of its provisions, however, were embodied in the Recommendations of the Pan-American Commission on Customs Procedure and Port Formalities, November 1929, and found their way into the Laws and Regulations of several of the American Republics.

On the other hand, the second recommendation made by the Genoa Conference (Tariff nomenclature) was not given serious study until after the World Economic Conference of 1927 (see Chapter V, §2, C.)

(b) *Treatment of Foreign Nationals and Enterprises.*

In 1923, the Economic Committee drew up a series of recommendations,[1] for adoption through autonomous action or bilateral agreements, regarding the principles on which the treatment of foreign persons and companies should be based, with a view to removing legal disabilities and obviating fiscal discrimination. A second series of recommendations[2] in 1925 dealt with the conditions under which foreigners legally domiciled in a country should be admitted to carry on a profession or occupation.

Both series of recommendations and a draft international agreement drawn up by the International Chamber of Commerce were considered by the World Economic Conference of 1927, which recommended the summoning of a diplomatic conference with a view to concluding an international convention on the subject.

The Conference, held in 1929, failed to reach agreement, the majority of States represented being unwilling substantially to liberalize their existing legislation, while States practising a liberal regime refused to sign any instrument that would constitute a retrogression. That the conclusion of a Convention on the subject would constitute a vital element in the movement towards greater freedom of trade was emphasized by the 1930 Assembly and the Tariff Truce Conference (see Chapter VI below). The 1929 draft was used as a basis in various bilateral and regional agreements (Ouchy, 1932, the Hague, 1937); but no general Convention was ever concluded.

(c) *Unfair Competition.*

The Committee took the view that the existing international agreements relating to unfair competition[3] (i. e., the improper

[1] League of Nations document A. 11. 1923. II.

[2] League of Nations document C. 309 (1) M. 114. 1925. II.

[3] a) Industrial Property Convention, Paris 1883, amended Brussels 1901, Washington 1911.

b) The Madrid Arrangement for the Prevention of False Indication of Origin on Goods, amended Washington 1911.

use of trade-marks or indications of geographical or commercial origin, or the false description of goods) were inadequate because:

a) many important States were not Parties;

b) the specific practices constituting "unfair competition" were not clearly defined;

c) the procedures for obtaining redress were defective. A draft worked out by the Committee formed the basis of a revised International Convention for the Protection of Industrial Property which was adopted at the Hague in 1925 under the auspices of the Industrial Property Union and brought into force in some 25 States and territories. The international regime for the Protection of Industrial Property was further extended as a result of a diplomatic conference held in 1934.

(d) *Unjust Discrimination.*

The Economic Committee reported to the 1922 Assembly[1] that "in view of the wide divergencies of opinion between different States as to the fundamental principles of tariff and Commercial policy, and the importance which many of these States attach to preserving their full autonomy in such matters, and also in view of the present instability of economic conditions in the world and the disorganization of the exchanges, they have so far been unable to arrive at any generally acceptable body of detached doctrine on the subject. . . . " In the circumstances, the Committee confined itself to expressing the hope that the principles embodied in the Genoa resolutions would receive the widest possible application. (See discussion of M.F.N. below, Chapters IV, §3d and V, §3).

The question of discrimination against a particular State was raised by the U.S.S.R. in an abortive proposal for a "Pact of Economic Non-Agression" submitted to the Commission of Enquiry for European Union in 1932 and the Monetary and Economic Conference of 1933.

[1] Report to the Assembly from the Economic and Financial Organisation, League of Nations document A. 59. 1922. II.

3. Other Work Aimed at Improving the Bases of Trade: Commercial Arbitration, Bills of Exchange, Double Taxation.

While the instability of exchanges and other factors made any substantial progress with tariff policy difficult and delayed the removal of quantitative restrictions on trade, League Committees were engaged in preparing the ground for an improvement in the legal and fiscal bases of trade.

(a) *Commercial Arbitration.*

One of the first tasks undertaken by the International Chamber of Commerce, and one of its most striking early achievements, was the creation of an International Court of Commercial Arbitration, which provided for conciliation and various forms of arbitration to suit the needs and traditions of traders from all countries. It was essential to the efficient functioning of this system that the validity of arbitration clauses in commercial contracts between parties in different countries should be recognized by national courts and in 1922 the Economic Committee was urged to attempt to bring about an inter-Governmental Agreement for this purpose. A Protocol, worked out by the Committee, was approved by the League Assembly in 1923 and opened to signature.

This Protocol was completed by a Convention, opened for signature in 1927, binding the Parties to ensure the execution of arbitral awards given outside their own territory.

The Protocol on arbitration clauses entered into force in July 1924, and has been ratified by some 30 States as well as colonies, protectorates, etc.; the Convention on the Execution of Foreign Arbitral Awards entered into force in July 1929 and has secured some 25 ratifications. (See Annex).

(b) *Bills of Exchange*

The Brussels Conference and The International Chamber of Commerce (1921) pressed for the resumption of work on the unification of laws relating to bills of exchange, which had been the subject of a still-born international convention concluded at the Hague in 1912.

The Economic Committee came to the conclusion that the deep-lying difference between "Anglo-Saxon Law" and "Continental Law", and the varieties of systems within the latter, made the establishment of a common system impossible. Further efforts were made from 1925 onwards along the lines of a progressive assimilation of national legislations, particularly of those of the Continental type; these efforts led to the convening by the League of a diplomatic conference in 1930, at which a Convention providing a Uniform Law for Bills of Exchange and Promissory Notes, a Convention providing for the Settlement of Conflicts of Laws, and a Convention on Stamp Laws were concluded. A further Conference in 1931 led to the conclusion of three similar Conventions relating to Cheques. All these instruments have been brought into force. (See Annex).

(c) *Double Taxation*

Mention must be made, lastly, of the effect given to recommendations by the Brussels Conference and successive Conferences of the International Chamber of Commerce regarding the elimination of double taxation—a question which, if not within the competence of Ministries of Commerce, is nevertheless of the first importance for international commercial relationships. Investigations begun in 1921 led, in 1927, to the drafting of a series of model conventions, each dealing with a distinct group of taxes. After consideration by a general meeting of Government representatives in Geneva in 1928, these models were submitted to Governments, who were invited to use them when conducting bilateral negotiations with other countries. This procedure was deliberately adopted in preference to an attempt to secure the adoption of the League models by multilateral convention and the decision proved a wise one. Between 1929 and 1939 some hundred bilateral agreements for the elimination of double taxation, based very largely on these League models, were concluded.

* * *

On all these questions, customs formalities, protection of industrial property, commercial arbitration, bills of exchange, double taxation, and later customs nomenclature, questions which related to the administrative and legal basis of trade, it proved relatively easy to make progress once an international machinery under the League had been established. But the Brussels Conference, the Conference of Portorose, the Genoa Conference, and the Assembly of the League itself were primarily concerned with government policies directly affecting the free passage of goods from one country to another, with prohibitions and quantitative regulations, with tariff policy, with the M.F.N. Clause.

With varying emphasis but striking unanimity,[1] those bodies, whose views were shared by the International Chamber of Commerce, insisted on a few simple principles of policy, the most important of which were:

(a) In general, the restoration of that freedom of commerce that had existed before the war;
(b) Specifically, the abolition of prohibitions and quantitative restrictions on trade;
(c) The suppression of commercial warfare;
(d) The stabilization of tariff rates and classifications;
(e) The conclusion of long term commercial treaties;
(f) The incorporation in them of full M.F.N. conditions.

Clearly the first step towards carrying out these recommendations was to remove quantitative controls.

[1] See, however, footnote on page 23.

CHAPTER III

INTERNATIONAL EFFORTS TO SECURE THE REMOVAL OF PROHIBITIONS AND RESTRICTIONS, 1924-1930

1. The Partial Restoration of "Liberty of Trading" in the Early Twenties.

The maintenance of abnormal restrictions on trade in the early post-war years had been primarily due to the scarcity of foodstuffs and raw materials and the more protracted currency disorganization. Dumping — especially exchange-dumping — had been responsible for the quantitative restrictions on imports in several countries; exchange control was the natural defense of countries with fluctuating currencies and in a weak financial position.

With the passing of such conditions and as governments were able to evolve a commercial policy, exchange controls were abandoned[1] and prohibitions and restrictions tended to be gradually replaced by higher tariffs.

In two countries whose economic and financial position had been especially precarious—Austria and Hungary—the restoration of "liberty of trading" was due in no small measure to the direct influence of League organs. In accordance with a recommendation of the Financial Committee, Hungary abolished her whole system of export and import prohibitions in the course of 1924. Austria re-established free dealings in foreign exchanges in March 1925 under the terms of an Agreement approved by the League Council six months earlier.

The year 1925 brought the abolition of the licencing system in Germany, with the recovery of full tariff autonomy, but it also brought the re-introduction of import prohibitions in Poland, owing, it was stated, to the necessity of combating currency instability and to the absence of a spirit of reciprocity in other

[1] Even in 1927, however, certain measures of foreign exchange control remained in force in Poland, Greece, Spain, France, Bulgaria, Yugoslavia, Czechoslovakia and Italy.

countries.[1] The decontrol movement was accordingly uneven; there remained, moreover, in many countries a hard core of prohibitions and quantitative restrictions which it was extremely difficult to eradicate. It was against this central core that the efforts of the International Conferences of 1927-29 were mainly directed.

2. The Prohibitions Conferences of 1927-1929 and the Failure of the International Convention of 1927.

The Economic Committee was instructed by the Assembly in 1924 to "consider the possibility and expediency" of an international agreement with a view to the final suppression of prohibitions and restrictions. The Assembly added that "provisions relating to the vital interests of States shall not be affected."

Prolonged study by the Economic Committee, which consulted both Governments and private expert bodies (more particularly the International Chamber)[2] led to the summoning of a diplomatic conference at Geneva in October 1927.

Twenty-nine States, including the United States, the United Kingdom, France, Germany, Italy and Japan, adopted an International Convention, based on a draft worked out by the Economic Committee, the main provisions of which were as follows:

The Parties undertook, subject to certain exceptions, "to abolish within a period of six months all import and export prohibitions or restrictions and not thereafter to impose any such prohibitions or restrictions" (Article 2).

Regulations regarding the manner, form or place of importation or exportation, or other formalities or conditions "shall not be made a means of disguised prohibition or arbitrary restriction" (Article 3).

The following prohibitions and restrictions were excepted, "on condition, however, that they are not applied in such a manner as to constitute a means of arbitrary discrimination . . . . or a disguised restriction on international trade": those relating to public services and traffic in arms and munitions; those imposed

[1] Proceedings of the International Conference for the Abolition of Prohibitions and Restrictions, League of Nations, Geneva, 1928. Statement by the Polish representative, p. 65.

[2] Note also the recommendations by the World Economic Conference (see Chapter IV, § 3).

on moral or humanitarian grounds, for the protection of public health or protection of animals and plants, for the protection of national treasures; those applicable to gold, silver coins, notes or securities; those which extend to foreign products the regime applicable to domestic products and those which apply to products under State or State controlled monopoly (Article 4).

The Parties reserved the right to adopt prohibitions or restrictions "for the purpose of protecting, in extraordinary and abnormal circumstances, the vital interests of the country." Should such measures be adopted "they shall be applied in such a manner as not to lead to any arbitrary discrimination" (Article 5).

With a view to eliminating a disguised form of protection, the Conference recommended (Final Act) the League Council to take up the question of restrictions imposed for the prevention of diseases of animals and plants. (See Chapter VIII, §2 below.) It also observed that prohibitions and restrictions ought not to be replaced by excessive duties.

Various temporary exceptions and the submission of claims for further exceptions within a given period (Article 6) were allowed.

A second conference should deal with these supplementary claims and settle the conditions for the coming into force of the Convention (Article 17).

A second Conference met in June 1928: certain reservations were withdrawn and additional reservations accepted and embodied in a Supplementary Agreement. It was decided that the Convention thus amended would come into force, if ratified by 18 States before September 30th, 1929.

By that date, however, only 17 ratifications had been deposited,[1] some of which were made conditional on those of Poland and Czechoslovakia, which had not adhered. At a third Conference, in December 1929, the contingent accession of Czechoslovakia was secured; but Poland finally refused to ratify owing to reservations made by Germany regarding trade in certain commodities which Poland considered essential to her economic life, and the majority of ratifications consequently lapsed. By special arrangement, the Convention was brought into force on a short-term basis from January 1st, 1930, by a few States in which,

[1] This figure was subsequently raised to 21.

in fact, only exceptional prohibitions existed—Denmark, the United Kingdom, Japan, the Netherlands, Norway, Portugal and the United States. By the middle of 1934 it had been denounced by them all.

Unsuccessful efforts were made to revive the Convention in the course of the Tariff Truce Conferences of 1930/31 (Chapter VI, §2b below) and at the Montevideo Conference of December 1933, which resolved:

> "that the Governments of the American Republics at the earliest possible date will simultaneously initiate between themselves negotiations for the conclusion of bilateral or multilateral agreements for the removal of prohibitions and restrictions. As part of this undertaking, they will revive and revise the Convention of 1927 or agree on a new Convention. . ."

For some years after 1927, the process of reducing lists of prohibited articles was continued. But from 1931 onwards, the problem of quantitative trade restrictions reappeared in a new and alarming form. (See Chapter VI, §1 below.)

3. International Agreements on the Export of Hides, Skins and Bones, 1928 and 1929.

Reservations regarding the export of hides and skins and bones, put forward by several countries, led to a series of conferences in 1928 and 1929, at which a joint renunciation of prohibitions and limitation of export duties on these articles was achieved. The agreements, signed by 18 States, entered into force in October 1929. (See Annex.)

CHAPTER IV

THE WORLD ECONOMIC CONFERENCE, MAY 1927

1. The Economic and Political Background.

The failure to obtain common agreement about the abolition of prohibitions meant that the ground was never completely cleared for tariff discussions. But this failure could not be foreseen when these discussions were initiated. Indeed when the League Assembly, in September 1925, decided to convene a World Economic Conference, real peace seemed at last in sight in Europe and a real chance of carrying out the policies which had been advocated. The Dawes Plan had assuaged the long-drawn-out reparations conflict; Franco-German cooperation was shortly to be consolidated by the Locarno Treaties and the entry of Germany into the League of Nations.

The national financial difficulties of the post-war years had been largely overcome. The restoration of German economic life with the help of foreign loans was rapidly progressing and the financial reconstruction schemes in Austria and Hungary were apparently working out according to plan. The gold or gold-exchange standard was operating over the greater part of Europe (although Italy, France and Belgium were still suffering from currency disorder); the United Kingdom, after years of deflationary effort, had, in the spring of 1925, restored the gold standard at the old parity.

In economic activity, too, a substantial, if uneven, recovery had been made. The quantum of international trade had been rising rapidly and the restrictions of the war and post-war period had been considerably relaxed.

By the time the Conference met in May 1927, further and extensive improvement in the political, financial and economic situation of Europe had been registered and further progress made towards "equality of treatment" and the re-establishment of pre-war trading conditions.

2. The Tariff Problem.

The improvement in the non-tariff aspects of international commercial relations threw into sharp relief the increase in the level,[1] complication, instability and number of post-war tariffs, and their obstructive effect on international trade and economic development. In spite of the reiterated recommendations of previous conferences, this conference was faced by a position in Europe which it described as follows:

> "Europe remains to-day with its tariffs higher and more complicated, less stable and more numerous than in 1913. Moreover, Europe has failed to restore its former system of commercial treaties, and the habit has developed of putting tariffs designed for purposes of negotiation into force before those negotiations take place. If, as has often happened, these tariffs have failed to result in agreement, the obstruction remains higher than before. The tendency of the last three years has continued to be in an upward direction. . . . "

The effects of "tarifs de combat" were aggravated by the widespread practice of increasing the margin allowed for bargaining in the new tariffs. In the French tariff of 1910, for example, the normal margin between maximum and minimum rates had been 50%; after the war, the margin was raised, on many items, to 400%.

The tariff position was most critical in Central and Eastern Europe. The nationalist policies pursued in this region—especially in the new States—had on several occasions been criticised by international bodies.[2] The neighbours of Austria—the principal sufferer—had been invited by the League Council in 1923 and again in 1925 to negotiate commercial treaties with her and each other, the object being to achieve a limited preferential régime in that region such as had been contemplated at the Peace Conference (See Chapter I, §3 above). These proposals met with but a limited response. Negotiations for a preferential agreement between Austria and Czechoslovakia were opened under the auspices of the Economic Committee in 1925, but broke down

[1] cf. Memorandum on Tariff Level Indices. League of Nations, 1927.

[2] e.g. the Central European Economic Conference, Vienna, 1925. cf. also Report of the Financial Committee of the League, December 1923; Minutes of the 27th Session of the Council, Annex 601; the Layton-Rist Report on The Economic Situation of Austria (L. of N. doct. C.440(1), M.162(1), 1925. II).

owing largely to the insistence of Italy—which was itself attempting to negotiate a preferential arrangement with Austria—on being a party to any agreement that might emerge. Following this failure, Austria's tariff was sharply raised (1926).[1]

Outside Europe, many of the worst features of these tariff developments had been avoided but, with some exceptions (e. g. Latin America), tariff rates had been raised substantially above the pre-war level. In the U. S. A., the Emergency duties of 1921, mainly on agricultural products had been followed by the formidable general tariff of 1922. In Australasia, India, Japan and elsewhere, tariff rates had been sharply increased.

3. The Recommendations of the Conference.[2]

a) *The form of Customs tariffs.*

The instability of tariffs was again condemned as being "one of the most formidable obstacles in the way of establishing and developing permanent and secure trade relations" and the simplification of tariffs and the unification of Customs nomenclature recommended. The Council was requested to arrange for the preparation of a systematic Customs nomenclature.

b) *Tariff levels.*

The most notable declarations of the Conference related to tariff levels:

> "In view of the fact that harmful effects upon production and trade result from the high and constantly changing tariffs which are applied in many countries;
>
> And since substantial improvement in the economic conditions can be obtained by increased facilities for international trade and commerce;
>
> And in view of the fact that tariffs, though within the sovereign jurisdiction of the separate States, are not a matter of purely domestic interest but greatly influence the trade of the world;

[1] cf. Leo Pasvolsky: Economic Nationalism of the Danubian States. New York, 1928; Chapters IV, IX and XIV.

[2] League of Nations document C.E.I. 44(1). 1927. The following chapter (V) is devoted to the application of these recommendations.

And in view of the fact that some of the causes which have resulted in the increase of tariffs and in other trade barriers since the war have largely disappeared and others are diminishing;

The Conference declares that the time has come to put an end to the increase in tariffs and to move in the opposite direction."

To achieve this result, three methods were foreseen:

(i) individual action by States "to remove or diminish those tariff barriers that gravely hamper trade",

(ii) bilateral action through commercial treaties,

(iii) collective action, to be promoted by the Economic Organisation of the League.

These resolutions and proposals, which elaborated the principles laid down at earlier international meetings, formed the basis of the attempts made in the following several years to achieve a general reduction in tariff barriers.

c) *Internal taxes and Export duties.*

The Conference condemned the practice of penalising imported goods by means of differential internal taxes and declared that export taxes, if they could not be altogether abolished, should be low and non-discriminatory. (See Chapters I, §8, and II, §1).

d) *Commercial Treaties, Treaty-making methods and the M.F.N. clause.*

The Conference declared that:

"A decisive step on the road to world reconstruction would undoubtedly be taken if the system of long-term treaties securing equality of treatment were restored. For this purpose, it is highly desirable that the widest and most unconditional interpretation should be given to the most-favoured-nation clause".

It desired the Economic Organisation of the League to examine the measures best calculated to secure

i) "identical tariff systems in the various European countries or at least a common basis for commercial treaties;"

ii) "the establishment . . . . of clearly defined and uniform principles as to the interpretation and scope of the most-favoured-nation clause in regard to customs duties and other charges".

e) *Indirect protection.*

The Conference condemned:

i) the direct or indirect subsidisation of exports,

ii) dumping, which was "facilitated by the existence of high import duties in the countries practising it". It recommended that importing countries should not resort to excessive measures by way of defence.

iii) discrimination arising from conditions of transport.

f) *Non-tariff measures.*

The Conference recommended that the principles contained in the draft Prohibitions Convention should be generally applied and "not be indirectly defeated by such means as export duties, the fixing of quotas, health regulations or . . . . by restrictions on the free circulation of capital". (See Chapter III, §2 above).

It "condemned the system of import and export prohibitions and the privileges sometimes granted to State enterprises".

It approved the Economic Committee's work on legal provisions or regulations affecting trade—e. g., the simplification of customs formalities, the assimilation of laws on bills of exchange, the international development of commercial arbitration, the suppression of unfair commercial practices—and urged that this work should be completed.

The Council was requested to open for signature a Protocol providing for the execution of foreign arbitral awards and to convene a diplomatic Conference for the purpose of concluding a Convention on the treatment of foreigners. (See Chapter II, *passim*).

CHAPTER V

ENDORSEMENT AND APPLICATION OF THE RECOMMENDATIONS OF THE WORLD ECONOMIC CONFERENCE OF 1927.

1. Endorsement.

The recommendations of the Economic Conference—and more particularly those relating to commercial policy—were immediately acclaimed by business opinion the world over, and the International Chamber of Commerce, at its Stockholm Congress in July 1927, recommended that they

> "should receive the support not merely of the international world of business as represented at this Congress, but also of the Governments of all nations".

They were unanimously adopted by the League Assembly and separately approved by specific declarations[1] of twenty-nine Governments, including twenty European Governments. Most of these Governments expressed their intention to apply the principles of the Conference and many announced their willingness to co-operate in any collective action that might be undertaken.

Thus the German Government declared that it

> "approves the general report of the World Economic Conference and concurs in its conclusions. It is ready to co-operate energetically in giving effect to the recommendations . . . of the Conference" and stated that it had also asked the Reich Council to

> "report whether and under what conditions it might be possible to lower, in the immediate future, those duties in the present German Customs tariff which have not yet been reduced."

The Czechoslovak Government stated that it

> "could at once adhere to the resolutions of the Conference

[1] League of Nations document C.E.I. 45, Geneva, 1927.

and . . . that it intended to develop its policy in conformity with the principles which they embodied."

The Belgian Government likewise expressed its approval of the recommendations of the Conference and declared that it was

"willing to come to an immediate understanding with other Governments on the bases laid down by the Conference."

2. Application.

(a) *Tariff stability: commercial treaties, 1927-29.* (*Chapters II, §1 and IV, §3 above*).

The Conference was in fact followed by a certain stabilisation of the European tariff position, evidenced by:

(1) a decline in the number of tariff revisions (1925: 16; 1926: 16; 1927: 10; 1928: 5; 1929: 2);

(2) the extension of the system of tariff treaties (1927:30; 1928:42).

The pillar of this treaty system—a pillar which remained standing many years after the edifice it supported had begun to crumble—was the Franco-German Agreement of August, 1927. The two Governments concerned placed it on record that this treaty would have been much more difficult to conclude "if the Parties had not been able to rely upon the principles laid down by the World Economic Conference and to benefit by the atmosphere created by its discussions".[1]

Of the treaties concluded in 1927, 16 contained tariff provisions, involving in several cases a consolidation or reduction of duties. Only 6 of the 1928 treaties included tariff clauses and the tendency towards consolidation was arrested, freedom of action being sought by several countries in regard to agricultural duties. In 1929 the beginning of a more general deconsolidation movement was clearly discernable.

(b) *Tariff levels 1927-1929* (*Chapter IV, §3b above*).

(1) Autonomous and Bilateral Action.

In May 1928, the newly-formed Economic Consultative Committee of the League reported that "the effect of the Conference

[1] Application of the Recommendations of the World Economic Conference, League of Nations document, C. C. E. 7, 1928.

has already substantially checked the upward movement of tariffs which was in full swing in May 1927." [1] Proposed increases in certain tariffs (France, Norway) in preparation in May 1927 had been moderated; reductions in duties, generalised through the most-favoured-nation clause had been effected as a result of several bilateral treaties and in a few countries by autonomous action (Czechoslovakia, Canada); elsewhere (e. g. Denmark, the Netherlands, Australia) insistent demands for increased protection had been refused. But numerous increases had been introduced (e.g. France, Germany—agricultural products, Poland), and the general level of tariffs appears to have risen on balance.[2]

During the following year (1929) the general level of duties was raised in a few countries (Bulgaria, Chile, China, Persia) and in others, where new tariffs or revisions were in preparation, there were signs of a tendency towards increased protectionism. Some partial reductions were recorded (e. g. the German industrial tariff) but none, through either autonomous or bilateral action, having any real bearing on international trade as a whole.[3]

Nevertheless, the Consultative Committee was able in May 1929[4] to report that while the prospects of policy were uncertain and lay under the shadow of the proposals under consideration in the United States of America, the existing tariff situation was "on the whole very much where it was a year ago". The Committee recommended Governments to emulate those States which had abolished duties constituting "heavy and permanent burdens upon the general industrial and agricultural productivity" or had ceased to serve any protective or fiscal purpose. Occasional autonomous reductions of this kind continued to be made by many countries. But the one fact of importance in this year was that discussions were going on in the United States of America for a formidable general increase in tariff rates at a moment in history when unprecedented economic activity re-

[1] League of Nations document C.217.M.73, 1928. II.

[2] Application of the Recommendations of the International Economic Conference, report on the period May 1927 to May 1928. Geneva, 1928. League of Nations document C.C.E.7

[3] Application of the Recommendations of the International Economic Conference, report on the period May 1928 to May 1929. League of Nations Document C.C.E.53.

[4] League of Nations document, C.192.M.73, 1929. II

moved all semblance of economic justification (though not of political pressure) for enhanced protectionism and when the creditor position of that country pointed to the imperative need for exactly the opposite policy if world economic stability was to be maintained. Other countries, afraid of this clouding of the western horizon, decided to wait and see whether the storm dispersed or broke. As is shown in Chapter VI below it broke with the great depression.

(2) Collective Action.

The Economic Committee was instructed by the Council to prepare a programme to give effect to the Conference recommendations regarding collective action. It should be observed that the Committee had hitherto been careful to avoid taking up any question directly affecting the customs and tariff policy of States, which had generally been regarded as falling exclusively within the sphere of national sovereignty.

Two methods of achieving collective reduction in tariffs were first considered—that of "maximum limits", i. e. the fixing of maximum limits to the duties imposable by any country on each category of merchandise, and that of "percentage reduction", i. e. maintaining existing duties in each country as the basis and arranging for simultaneous and gradual percentage reductions in those duties. Both these methods, however, raised such difficulties as to make them appear entirely unrealisable. The Committee, on the other hand, was encouraged by the progress of the work on removing restrictions on hides, skins and bones (see Chapter III, §3 above) and accordingly decided, in March 1928, to attempt—as a first step—to bring about collective agreement for tariff reduction on particular groups of products.

It decided to begin with semi-manufactures, in regard to which resistance to tariff reduction seemed likely to be least strong, and with certain products subject to a considerable measure of national and international cartel control. Aluminium was considered, at the instance of Germany, but owing to opposition from other countries, enquiries had to be abandoned. Governments and experts (producers' representatives) were consulted in regard to the concerted reduction of cement duties, but here again results were negative, the proposal being favoured by the no- or low-duty exporting countries but opposed by those which were building up a domestic industry behind high tariffs. The co-operation of overseas countries was not, in general, forthcoming.

(c) *The Unification and Simplification of Customs Nomenclature (Chapter IV, §3a above; also Chapter II, §1).*

An assimilation of Tariff nomenclature was considered a necessary preliminary to collective tariff agreements and an Expert Committee was appointed. In 1931 it completed the first draft of a standard classification of goods entering into international trade adaptable to the requirements of any country. The time was not considered opportune for convening a conference for its adoption and the Assembly of that year confined itself to expressing the hope that Governments would use it as far as possible when revising their tariffs. The draft—revised in 1937 in the light of observations from national administrations—has, in fact, already been applied in part by France, Italy, Czechoslovakia, Denmark, Finland, Egypt, the Baltic States, Poland, Sweden, Uruguay and certain Asiatic countries and is at present under study in other countries.

(d) *Tariff systems and contractual methods. (Chapter IV, §3d above).*

The most-favoured-nation clause had proved valuable in the past as a means at once for spreading the effects of tariff reductions resulting from bilateral treaties and for overcoming some of the difficulties which resulted from the coexistence of quite different tariff systems. Its success was really dependent on countries with intangible tariffs not imposing exaggerated rates. When such countries did impose high protective duties, the whole problem of the coexistence of different systems became acute.

However, the Economic Committee reported in 1929[1] that it was impracticable to attempt to remove the existing disparity of tariff systems, whatever difficulty the existence of intangible tariffs might present to concerted action for tariff reduction. The policy of countries with non-negotiable but moderate tariffs (e. g., the Netherlands and the United Kingdom) was, it held, clearly unobjectionable but not so that of "States which, having

[1] League of Nations document C.138.M.53. 1929.

established tariffs intolerable for other countries, refuse to contemplate their reduction. . . . or impose repeated variations of duty". Assurances, the Committee held, should be sought from such countries (e. g., the United States). It should be remembered that the United States was not at that time disposed to co-operate in the tariff programme of the World Economic Conference; after 1934, however, that country took the lead in a policy designed to lower tariffs by treaty.

In respect of contractual tariffs, (single column tariffs reducible by agreement or double column tariffs permitting of contractual adaptation), the Committee recommended:

1) that exaggerated margins for negotiations should be reduced;

2) that tariffs increased with a view to negotiation should not, as a general rule, be applied until the negotiation had been completed;

3) that tariffs should be widely consolidated;

4) "that the practice of negotiable tariffs should not exclude the adoption of long-period tariffs".

(e) *Miscellaneous questions.*

(i) The Treatment of Foreigners and Foreign Enterprises. (Chapter IV, §3f). See Chapter II, §2.

(ii) Import and Export Prohibitions and Restrictions. (Chapter IV, §3f). See Chapter III above.

(iii) The Assimilation of Laws on Bills of Exchange. (Chapter IV, §3f). See Chapter II, §3b above.

(iv) The Execution of Foreign Arbitral Awards and International Commercial Arbitration. (Chapter IV, §3f). See Chapter II, §3a above.

(v) Subsidies, dumping, administrative discrimination, etc. (Chapter IV, §3e). See Chapter VI, §4 below.

3. Work of the Economic Committee on the Most Favoured Nation Clause. (Chapters I, §1 and §3; II, §1; and IV, §3d).

(a) *Gradual re-establishment of the Clause, 1921-1929.*

Before considering the fate of the policies advocated at the Conference, it is necessary to trace the action taken by the Economic Committee with respect to one of the most important recommendations of the Conference, namely, the re-establishment of the M.F.N. clause.

The re-establishment of the Clause as the basis of the commercial relationships between States was one of the few real successes of the first post-war decade in the sphere of commercial policy proper. The United States adopted the unconditional form of the Clause in 1922; Italy became its advocate in 1921, joining forces with the United Kingdom and other traditional upholders of the Clause, together with Germany and her ex-allies, to break down the opposition of France and Spain. France returned to her pre-war practice in concluding her agreement with Germany in 1927 and Spain adopted the Clause by a law of 1928.

There was a serious need, however, for a standarised drafting and an authoritative interpretation of the Clause whose obligations—even in its post-war hey-day (1927-1929) were systematically evaded in many countries by means of an excessive specialisation of tariffs, administrative discriminations and the licencing systems that still remained.

(b) *Attempt at codification 1927-31.*

In compliance with the recommendation of the Economic Conference (Chapter IV, §3d) the Economic Committee undertook to codify most-favored-nation treatment in 1927.

In 1929 it elaborated a general doctrine[1] regarding the drafting, interpretation and application of the clause. One of the central issues of which it had to take account was the deep-lying divergence of views regarding the conditions of application (and in existing circumstances[2] the value) of the clause between countries with non-negotiable and those with negotiable tariffs. The former demanded most-favoured-nation treatment as of

[1] Contained in League of Nations document—C.138.M.53. 1929. II.
[2] Especially the prospect of a still higher tariff in the U. S. A.

right, irrespective of their own tariff policy, the latter desired to grant most-favoured-nation treatment either only as part of reciprocal tariff agreements or to countries practising a liberal tariff regime. The Committee concluded that "the grant of most-favoured-nation treatment ought to be normal and the refusal of this guarantee or a preferential regime ought not to arise unless in the case of states which refuse an equitable tariff policy or have recourse to discriminating practices."

It likewise considered the question of the relations between bilateral agreements based on the clause and multilateral agreements, i. e., whether states not parties to a multilateral tariff agreement should be entitled to claim the benefits under the most-favoured-nation clause without making reciprocal concessions. The Committee accepted the principle that the position of the parties should be safeguarded, but only in the case of agreements "of a general character and aiming at the improvement of economic relations between peoples"; states not parties which practised a liberal regime should, moreover, not be penalised.

A resolution of the 1930 Assembly, based on a joint demand by the delegations of Denmark, Estonia, Finland, Latvia, the Netherlands, Norway, Sweden and Switzerland, led to further studies by the Committee on certain controversial questions concerning the application of the clause, including its bearing on quotas. On the latter point, the Committee, in a detailed report, published in 1933,[1] declared that

> "Any country desiring to adopt Customs quotas must bear in mind that the most-favoured-nation treatment which it has conceded to other countries impose on it the obligation not to impair the equality of conditions in international commercial competition".

(c) *Partial Eclipse of the clause after 1930.*

The post-1930 period was characterised:

(i) by a rapid growth, especially in Europe, of non-tariff measures of restriction which tended to neutralize the effect of the clause;

[1] Recommendations of the Economic Committee relating to Tariff Policy and the Most-Favored-Nation Clause. League of Nations document E.805.

(ii) by a movement towards "reciprocity", particularly in Europe, achieved in some cases by measures not affecting tariffs (e. g. the quota policy adopted in 1931 by France and many other European countries), in others by the open withdrawal of most-favoured-nation treatment from "non-reciprocating" countries (e. g. in Spain, whose 1930 tariff and subsequent agreements with France and Italy, constituted an effective discrimination against the United States;

(iii) by an extension of imperial and regional preferences (e.g. the Ottawa Agreements 1932 and the parallel development in the French Empire: preferential agreements—some tariff, but principally non-tariff—in Central and Eastern Europe from 1931 onwards).

The scope of the Clause and its range of application were thus greatly restricted. It continued nevertheless to be 1) the legal basis of tariff policy and the avowed basis of general trade policy in almost all countries and 2) despite certain limitations, the actual basis of policy in the greater part of the world.

(d) *Doctrinal developments after 1930.*

With the developments set out above, and under the combined influence of the post-1922 United States tariff policy and later the economic depression, the conflict of national attitudes regarding the scope and application of the Clause became increasingly marked and the Clause itself increasingly discredited in the European continent.

The opinion was widely expressed that if countries with non-negotiable and high tariffs, especially such countries as the United States whose competitive power was very great, demanded the automatic application of the clause to themselves while maintaining their own tariff rates, the effect of the clause was to prevent the conclusion of commercial treaties and restrict trade.

The agenda of the Monetary and Economic Conference of 1933 included a proposal for the conclusion of a general interpretative agreement and the waiving of the clause when multilateral agreements were reached between groups of countries. (See Chapter VII, §1 below). The right to waive the clause by way of exception was indeed one of the most crucial problems. The European Commission (1931) and the Stresa Conference (1932) admitted the desirability of such exceptions in recommending limited and temporary preferences for the cereal exports of Central and Eastern European countries, provided third parties with most-favoured-nation rights consented. The required consent was, however, not forthcoming (See Chapter VI, §3 below). The Sub-Committee of Economic Experts appointed by the European Commission in 1931 recommended that permanent *rapprochements* between groups of European states for the purpose of removing obstacles to trade and stabilising and reducing tariffs should be facilitated by a waiver of most-favoured-nation rights, and, as stated, the Preparatory Committee of Experts for the 1933 Conference made a similar proposal. In the test case (Ouchy Convention 1932), however, the opposition of the United Kingdom was decisive.

At the Montevideo Conference (December 1933) the American states affirmed their adherence to the most-favoured-nation system but contemplated (a), the recognition of exceptions in respect of tariff reductions arising out of multilateral agreements and (b), the evolution of an inter-American preferential system. The resolutions of the Conference were embodied in a Convention opened to signature in Washington the following year (which was ratified by Cuba and the United States only) and were reaffirmed by the Pan-American Commercial Conference held in Buenos Aires in 1935.

In a report issued in 1936,[1] the Economic Committee restated its opinion that "the most-favoured-nation Clause and the system of equality of treatment which it is designed to establish constitute an essential guarantee for the maintenance and development of world trade" and that, in the long run, abnormal measures of trade regulation "are incompatible with a developing and prosperous trade". The Committee pointed out that "the principal obstacle to the formation of (larger trade) areas lies not in the existence of the most-favoured-nation clause—which is a contractual provision and therefore subject to denunciation—but in the absence of a movement of opinion strong enough to overcome the opposition to the realisation of such projects and still more in the fundamental objections which have been raised against the recognition of undefined exceptions to the general application of the Clause".

[1] *Equality of Treatment in the Present State of International Commercial Relations,* League of Nations document C.379.M.250. 1936. II. B.

A partial rehabilitation of of the most-favoured-nation clause and a moderation of the regime of exceptions that had grown up resulted from the programme of reciprocal tariff agreements on which the United States embarked in 1934. (See Chapter VIII, §1, g below).

CHAPTER VI

THE GREAT DEPRESSION AND THE EUROPEAN CONFERENCES, 1929-32

1. The Course of Commercial Policy, 1929-32.

The state of apparent, if precarious, economic equilibrium broke down in the summer of 1929. Before the end of the year measures of intensified agricultural protectionism had been introduced in Germany, France and Italy; upward tariff revisions had occured in Roumania, Norway, Hungary and Finland and in many other countries higher schedules were in preparation. The movement, which was accompanied by deconsolidation of duties and denunciations of existing treaties, was accelerated and extended as the economic depression spread and deepened. The final adoption of the Hawlay-Smoot tariff in the United States in June 1930 was shortly followed by higher tariffs in Canada, Cuba, France, Mexico, Italy, Spain, Australia, and New Zealand. The United Kingdom abandoned her traditional free-trade policy with the imposition of emergency duties in the autumn of 1931 and the first general tariff in February 1932.

A new and far more critical phase in the development of restrictions on trade opened with the financial crises in Austria and Germany in the early summer of 1931, followed by the widespread abandonment of the gold standard some months later. The upward trend of duties was accelerated and affected almost all countries. Moreover, tariffs were supplemented—and before long overshadowed—by direct quantitative restrictions and the control of foreign exchange transactions. At the close of 1931, foreign exchange controls were in force in Austria, Bulgaria, Czechoslovakia, Denmark, Estonia, Germany, Greece, Hungary, Latvia, Portugal, Spain, Yugoslavia, Argentine, Brazil, Bolivia, Columbia, Chile, Uruguay, Turkey, Iran; customs quotas in Czechoslovakia, France, Italy, Latvia, the Netherlands, Turkey.

The principal characteristic of the early stages of the depression in Europe was the collapse of agricultural prices. The agricultural exporting countries were subjected to an increasingly severe strain while the principal industrial countries hastened to afford additional protection to their farmers. At the instance of the Economic Consultative Committee, a meeting of agricultural experts from 20 countries, together with representatives of the International Institute of Agriculture, was convened by the Economic Organisation of the League in January 1930. No precise recommendations were issued, but it may be noted that the Economic Committee, in reporting this meeting to the Council,[1] expressed the view that "the League's economic work can only attain effective results if it satisfies, in the first place, the needs of agriculture and provides agriculture with the means to secure the place which is due to it in the preparation of economic policy and in the commercial relations between States".

2. The Tariff Truce Conferences of 1930 and 1931.

(a) *The First Conference with a view to Concerted Economic Action.*

The ominous tendencies of commercial policy, and the general failure of the tariff programme of the 1927 Conference, led the 1929 Assembly to convene an intergovernmental Conference and propose that that Conference should conclude a two or three-year Tariff Truce (an undertaking not to increase or introduce new restrictions on trade) in order to facilitate concerted action for the reduction of tariffs.

The Conference—which assumed an almost exclusively European character—met in February 1930. The idea of a Tariff Truce broke down, owing to opposition both from the Central and Eastern European agricultural States and from countries (e. g., France) which had embarked on a policy of intense agricultural protectionism; but a *Commercial Convention* was signed on March 24th, 1930 by which the 18 signatories—among them Germany, France, Italy and the United Kingdom—undertook to prolong all existing commercial agreements until April 1st, 1931, and only to raise duties after interested Parties had been given an opportunity of submitting objections. Countries with non-negotiable tariffs (e.g., the United Kingdom) bound themselves not to raise statutory duties during the same period.

[1] League of Nations Official Journal, February 1930, p. 161.

At the same time, the delegates of twenty-three States represented at the Conference adopted a *Protocol regarding the Programme of Future Negotiations,* with the aim of "ensuring the effective application of the resolutions of the World Economic Conference of 1927". Under this Protocol, negotiations were to be opened with a view to bringing about tariff reductions and "all other practical measures aiming at better organisation of production and a more rational distribution of products". It was agreed that a second conference should be held in November to decide on the ways and means of bringing the Convention into force and to review the progress of negotiations.[1]

(b) *The Second Conference and the failure of Collective Action on Tariffs.*

The agenda of the November Conference, drawn up by the Economic Committee on the basis of desiderata expressed by the Governments concerned, consisted of three principal items:

(1) that certain work already begun by the Economic Organisation of the League (e. g., Customs nomenclature) should be quickly completed and the *Commercial Convention,* the *Prohibitions Convention* and the *Draft Convention on the Treatment of Foreigners* brought into force.

When it came to the point, no progress was made with any of these Conventions. By November, 10 States had ratified the Commercial Convention but were unwilling in the absence of France, Germany and all the Eastern and Danubian States, to bring it into force between themselves. A further meeting of the Conference in March 1931, when general economic and political conditions had become still more unfavorable to agreement, left the position substantially unchanged. No further attempt towards collective action in regard to tariffs was made until 1933. (See Chapter VII below).

(2) that bilateral negotiations for the general improvement.. of trade should be opened.

Only two proposals of special importance were made as to method. The first (United Kingdom)—a revival of the method unsuccessfully attempted by the Economic Committee in 1928/

[1] League of Nations document C.222.M.109. 1930. II.

29—aimed at an all-round reduction of duties by multilateral agreements, proceeding by groups of products and by stages. Under the second proposed (the Netherlands), States with non-negotiable tariffs and a liberal tariff regime should undertake to maintain a liberal policy in return for concessions—the benefits of which would be generalised through M.F.N.—by States with conventional tariffs and more or less protectionist regimes.

The Conference considered that the first proposal was impracticable; the second resulted in a suggestion that the low-tariff countries should present their demands to the others. The United Kingdom opened negotiations with several countries in the early part of 1931 for the reduction of particularly onerous duties, but met with negligible success. (For U.K. tariff policy after 1932, see Chapter VIII, §2).

(3) that steps should be taken to deal with the special trade problems of the agricultural countries of Central and Eastern Europe.

These problems were considered at a series of conferences of Danubian and Eastern European States in the summer of 1930. The International Agricultural Conference held at Warsaw in August 1930, at which the Governments of Bulgaria, Czechoslovakia, Estonia, Hungary, Latvia, Poland, Roumania and Yugoslavia were represented, put forward, on behalf of these countries, a demand for (a) financial assistance and (b) preferential customs treatment for their cereals. The Warsaw Conference further proposed that in regard to European agricultural products, duties should be consolidated, freedom of trade from non-tariff restrictions assured and internal measures limiting imports (e.g. milling regulations) abolished in other European countries.

No decision on these proposals—that regarding preferential treatment having been strongly opposed at the League Assembly by overseas agricultural countries—was taken by the November Conference.

3. The Commission of Enquiry for European Union.

Commercial policy was discussed by this Commission in 1931 and 1932 in connection mainly with

(a) The cereals problem of Central and Eastern Europe;
(b) The wider problem of the economic 'viability' of that area (Stresa Conference);
(c) The still wider question of European regional agreements or *rapprochements* of a permanent character;
(d) International Industrial Agreements.

(a) *The Cereals problem and proposals for temporary preferential tariff arrangements, 1931.* (*See Chapter VI, §2b 3 above*).

A meeting of the principal cereal exporting and importing countries, called by the Commission in January 1931, resulted in an undertaking by the latter to reserve a proportion of their wheat imports in 1931 to European grain and to consider similar action in respect of other cereals. In May, the Commission itself reported in favour of a preferential regime in respect of imports of European agricultural products "as an exceptional and temporary measure and subject to the interests of third States". It made it clear that compensatory concessions by agricultural countries should not be preferential.

In the course of 1931 and 1932, various preferential tariff agreements on these lines were negotiated. The most important were those between France and Yugoslavia, Hungary and Roumania, providing for a refund by France to the Governments concerned of a percentage of the minimum tariff on certain contingents of wheat in return for reductions of duties on various exports. Germany likewise offered Hungary and Roumania tariff preferences on certain cereals against reductions in duties which were to be generalised by M.F.N. These proposals had to be abandoned because of opposition from some of Germany's M.F.N. countries.

It should be noted that the United States Government, when intimating its inability to accept bilateral arrangements of this kind, stated that a general plan for the whole of Europe, aiming at the improvement of economic and financial conditions, would be sympathetically examined "even if it were to necessitate the application of measures which were likely to infringe existing treaties or acquired rights".

(b) *The Danubian problem and the Stresa Conference of 1932.*

In 1931 and 1932, the economic plight of the Danubian countries was one of the central problems of European statesmanship. The project for an Austro-German Customs Union (March 1931), was countered by the Benes and Tardieu Plans, both proposing the recognition of a permanent exception to M.F.N. in order to allow the formation of a preferential Customs regime within the Danubian group.

In June 1932, the Lausanne Reparations Conference appointed a special intergovernmental committee to submit to the European Commission "proposals as to measures required for the restoration of the countries of Central and Eastern Europe", and in particular, measures (a) to overcome transfer difficulties and to make possible the progressive suppression of exchange control; (b) to revive international trade and remove the difficulties caused by the low price of cereals.

This Committee, known as the Stresa Conference, met in September 1932. It put forward a general scheme of which the trade relationship aspects were as follows:

(i) the gradual removal of exchange restrictions, to be made possible by debt settlement and stabilisation, which in turn would be facilitated by the operation of a "Currency Normalisation Fund" constituted by the larger European Powers;

(ii) the return to a "liberal commercial policy and a moderate tariff policy", to be made possible by means of a scheme of revalorisation of cereals, involving the grant of limited preferential tariff rebates by cereal-importing countries and/or financial contributions to a revalorisation fund. The beneficiary States should grant reciprocal concessions on a non-preferential basis. The hope was expressed that countries with M.F.N. rights would not obstruct the realisation of the plan.

The Stresa programme was approved in principle by the European Commission in spite of opposition by certain Western countries, the States Members declaring that "each for its own part . . . . they are ready to apply, as far as may be possible and without delay, the general guiding principles which result therefrom" (Resolution adopted October 1st, 1932).

The whole scheme, however, came to nothing, the financial arrangements, on which the hoped-for modifications in commercial policy were dependent, encountering insuperable difficulties. Danubian trade policy became increasingly restrictive and discriminatory through the application of exchange-control (with its correlative, the clearing system) and a variety of other non-tariff measures, e.g. quotas, export premia, special credit facilities, preferential frieght rates, artificial exchange rates for clearing purposes.

(c) *Regional Agreements.*

Faced with the impracticability of concerted European action for the reduction or stabilization of trade barriers and the tendency towards purely bilateral trade arrangements on a more or less discriminatory basis, the Commission in 1931 was led to recommend "permanent economic *rapprochements*", or limited group agreements, provided the interests of third parties were safeguarded and the agreements open to accession by any State.

Between 1930 and 1938 there was, indeed, a strong movement towards closer economic relationships between groups of smaller European countries.[1] The joint action by the Eastern agricultural countries has already been noted. This was followed by discussions which led to the adoption of the Little Entente Economic Agreement (1933), the economic provisions of the Balkan Entente (1934) and a programme of close economic collaboration between the Baltic countries (1934). Austria and Hungary were brought within the Italian economic orbit by the Rome Protocols and the Three-Power Pact (1934).

The Little Entente, the Balkan and the Baltic agreements yielded definite, though strictly limited, results, the chief of which was perhaps the habit of regular consultation and the emergence of at least the broad lines of a common external economic policy. Of far greater practical importance, however, were the attempts by the Northern countries and certain of the smaller countries of Western Europe to expand trade among themselves along the lines recommended by the international conferences.

Denmark, Norway, the Netherlands, Sweden, Belgium and Luxemburg concluded a *Convention for Economic Rapprochement* at Oslo in December 1930. This Convention—to which Fin-

[1] This movement was, in fact, world-wide. cf. the inter-American rapprochement, the Ottawa Agreements and the developments in French colonial economic policy, referred to in Chapter V, § 3.

land subsequently acceded—was designed to form a permanent basis for the economic relations between the contracting parties; it laid down a procedure for notification and appeal in respect of possible tariff increases similar to that provided by the still-born Commercial Convention of March 1930 (Cf. above, Chapter VI, §2). Throughout the thirties there was frequent consultation between members of the 'Oslo Group' on matters of commercial policy. The original agreement was strengthened by the Hague Convention of 1937 (see Chapter IX, §2c below) and by the periodic conferences of the Nordic Powers (including Iceland) initiated in 1934.

Of still greater importance, since it was the first definite and practical move towards tariff reduction made by any group of Governments, was the Ouchy Convention of July 1932 concluded between the Netherlands, Belgium and Luxemburg. The main provision of this Convention, which was open to accession by any state, was the immediate reduction, among the contracting parties, of all existing import duties by 10% and further reductions of 10% year by year to a total of 50% (subject to the maintenance of a small all-round minimum rate). Owing to the refusal of certain States, including the United Kingdom, to forego their rights under the M.F.N. Clause to benefit by the proposed tariff reductions, the Convention never entered into force.

(d) *International Industrial Agreements.*

The Sub-Committee of Economic Experts set up by the European Commission in 1931 endorsed the opinion expressed by the World Economic Conference of 1927 that under certain conditions and guarantees, the extension of international industrial agreements might have a beneficial influence on the organisation of production and trade in Europe. They made it clear, however[1], that "neither the formation nor the operation of combines should be influenced by any Governmental action aimed at using them as an instrument of pressure in the field of commercial policy. Their development should be in harmony with the treaty policy of the various countries so as not to hamper the steps taken to promote international co-operation". This recommendation was specifically referred to the consideration of Governments by the 1931 Assembly.

[1] League of Nations document C.510.M.125, 1931. VII.

The rapid extension of such international industrial agreements in the 'thirties was, it is true, responsible for the regulation of trade, and a parallel stabilisation of trading restrictions, in regard to various groups of products. But there is little evidence to show that the rider to the Experts' recommendation was observed, the general practice of Governments being to boost rates and multiply other forms of restriction on imports of the cartellised products whenever such action would strengthen the position of their own producers in negotiating with their opposite numbers in other countries.

(4) Procedure for the friendly settlement of inter-State economic disputes.

Chiefly in connection with the problem of dumping and anti-dumping and countervailing duties, the French delegation to the Tariff Truce Conference proposed that a permanent organ for conciliation and arbitration, attached to the Council of the League, should be set up "for the settlement of all disputes of an economic nature which may arise between States". A procedure worked out by the Economic Committee was approved by the Council in January 1932 and a panel of fourteen experts appointed for a period of five years as from the beginning of 1933.

This procedure was never utilised. (See M. van Zeeland's proposal, Chapter IX, §2e).

CHAPTER VII

THE LONDON MONETARY AND ECONOMIC CONFERENCE, 1933

1. The Report and Annotated Agenda Submitted by the Preparatory Committee.

The Lausanne Conference of June 1932, invited the League of Nations to convoke a world conference on economic and monetary questions with a view to "facilitating the revival of international trade" and particularly to restoring currencies, "thereby making it possible to abolish measures of exchange control and remove transfer difficulties." A Committee of Experts was set up to prepare the agenda of this conference.

The preparatory Committee decided that it was necessary to abandon piecemeal policies and to attempt to bring about joint action simultaneously in a number of different directions. In its unanimous report published in January 1933[1], the Committee made the point that "an effective and lasting return to greater freedom of trade cannot be looked for unless it is accompanied by a general and durable improvement in financial and monetary conditions" and vice versa. Recommendations regarding financial and monetary policy, including the question of intergovernmental debt settlement, and those regarding commercial policy were thus inter-dependent. Again, the Committee pointed out that a reversal of the prevailing tendencies in commercial policy postulated a solution of the price problem and, among the methods by which equilibrium might be restored, suggested the con-
ods by which price equilibrium might be restored, suggested the conclusion of international agreements to regulate the production

The Committee was "unanimous in affirming the necessity that action for the removal of the non-tariff restrictions on international trade (prohibitions, quotas, exchange restrictions etc.) should be taken as soon as possible and continued on progress-

[1] League of Nations document C.48(1). M.19(1). 1933. II.

ively wider lines as the other causes of the present economic disorganisation are mitigated or removed.

In regard to tariff policy, the Committee reported that "the object of the Conference . . . . must be to reach a general agreement for the reduction of tariffs and to maintain a more moderate tariff policy in the future." It recommended for this purpose that:

a) a Customs truce—or a more elastic measure along the lines of the Commercial Convention of 1930—should be concluded as a preliminary measure;

b) two methods of achieving reduction might be combined, i.e., percentage reductions (on the Ouchy model) and reduction to a uniform level;

c) if multilateral agreements were impractical, agreements between groups should be attempted and an exception to M.F.N. admitted in respect of such agreements;

d) efforts should be made to reach agreement on the scope and application of M.F.N. and on the exceptions, temporary or permanent, which might henceforth be recognised. (See Chapters V, §3 and VI, §3.c above.)

The Committee—taking up a point made by the Basle Committee on the German financial position in August 1931—emphasised the special responsibility of the great creditor countries in initiating and making possible a general move towards freer trade. It likewise declared that "the prospects of substantial success in the necessarily complex and multilateral conference discussions will be greatly enhanced if, in the intervening months, preliminary negotiations have cleared the way for reciprocal concessions."

Support for the programme submitted by the Preparatory Committee—and more particularly its recommendations on the closely-linked and central problems of international debts, monetary stabilisation and tariff disarmament—was voiced by countless national and international bodies. Among the latter were the International Parliamentary Commercial Conference, (Rome session, April 1933); the Comite de l'Union douaniere Europeenne (April 1933); the International Chamber of Commerce (Vienna Congress, May-June 1933); the International Exchange Congress (Paris, 1933); the International Agricultural Commission (Berlin, 1933); the International Co-operative Alliance (June 1933); the International Labour Conference (Geneva, 1933).

In April, 1933, the British Premier, Mr. Ramsay MacDonald, and M. Herriot went to the United States to prepare the ground for the Conference. Mr. MacDonald's conversations with President Roosevelt led to a declaration that the United Kingdom and United States Governments were agreed on the need of an increase of commodity prices and of "constructive work to moderate the network of restrictions of all sorts by which commerce is hampered".[1]

A few weeks before, however, the United States had abandoned the gold standard and, as the date of the opening of the Conference approached, it became increasingly clear that the one basis on which any agreement on tariffs and trade restrictions might be reached—namely, the restoration, immediate or progressive, of an international monetary system—had been shattered. The United States Government was unwilling to enter into any undertaking in regard to currency stabilisation which, it thought, might compromise its own recovery programme; while the countries of the "gold bloc"—France, Belgium, Luxemburg, the Netherlands, Poland, Italy, Switzerland and Czechoslovakia —made any consideration of a general tariff agreement dependent on at least *de facto* stabilisation.

On the other hand, before the opening of the Conference in June, a temporary arrangement was reached regarding the service of war debts, and a tariff truce for the period of the Conference, proposed by the United States Government, was accepted, subject to certain reservations, by 61 States representing nearly 90% of the trade of the world.

[1] M. Herriot's conversations were followed by a similar statement which declared that the United States and French Governments were "looking with like purpose at the main problems of the world and the objectives of the World Economic Conference" and specified "the re-establishment of a normal financial and monetary situation" as one of the goals to be attained by the Conference.

2. Views and Recommendations of the Conference Commissions.[1]

The fundamental aim of the Conference was to reconstruct the machinery of international exchange. It was largely concerned with the measures by which the abolition of exchange-control could be facilitated and expedited. As regards quotas, tariffs and M.F.N., all the delegations were agreed that quantitative restrictions "whether direct or indirect, must disappear as soon as possible"; "the need and urgency of reducing excessive customs tariffs were unanimously admitted"; "there was a general opinion in favour of the maintenance of the most-favoured-nation clause in its unconditional and unrestricted form, naturally with the usually recognised exceptions."[2]

The basic doctrines of the earlier conferences were impressively re-affirmed in the speeches of the world's leading statesmen; but to each general principle some reservation was attached, and there was a marked difference of opinion as to the methods by which it should be applied. Some delegations made reservations in favour of agricultural quotas, while for others the disappearance of agricultural quotas was the condition of the removal of quotas on industrial products. Some delegations considered that tariff disarmament could only be achieved by a collective convention, providing e.g. for gradual reduction of duties by uniform annual percentages on the Ouchy model; others held that the desired result could only be attained through bilateral treaties and that the Ouchy method would be inequitable and destructive of the balance of national customs systems. Proposals that the Customs Truce should be prolonged and made stricter provoked a similar conflict of view. Several delegations demanded the recognition of new exceptions to M.F.N., but "opinions differed very widely" about what those exceptions should be.

Finally, the hypothesis on which the whole work on commercial policy was based was the stabilisation of currencies. "When events showed that this hypothesis could not be realised . . . several countries . . . deemed it necessary to reserve full liberty of action in the matter either of quantitative restrictions, or foreign

[1] The Conference was never formally completed and—except on questions of procedure—adopted no resolutions as such.

[2] Quotations from the Report of Sub-Commission I approved by the Conference on July 27th, 1933. League of Nations document C.435.M.220. 1933. II.

exchange control or customs tariffs.')[1] The Conference was adjourned *sine die*; statesmen returned to their countries, most of them to reinforce their protective systems. The currency issue proved indeed to be crucial. Only in the group of countries which had allowed their currencies to depreciate was there even an approximate correspondence between the policies actually followed and the recommendations discussed at the Conference.

Before summarizing the development of commercial policy in the next three years, three minor results of the London Conference should be mentioned.

i) *Equitable treatment and indirect protectionism.*

The Sub-Commission dealing with indirect protectionism recommended that an "equitable treatment" clause should in future be inserted in commercial treaties providing for negotiations should any new practice (i.e., a practice not covered in treaties in operation) introduced by one party be considered by the other to impair the value of the treaty. A clause of this purport subsequently found its way into the commercial treaty systems of various States.

ii) *Veterinary regulations.*

Both the World Economic Conference and the Prohibitions Conference of 1927 (see Chapter III, §2 above), had called attention to the "indirect protectionism" practiced in certain countries by means of veterinary regulations. Draft agreements laying down standard principles on which regulations relating to certain products should be based were worked out in the intervening years by the Economic Committee and a sub-commission of the London Conference recommended that a diplomatic conference should be called to conclude an international agreement on the basis of these drafts. This Conference met in February 1935 and conventions relating to measures against contagious diseases of animals, the transit of animals, meat and other products of animal origin and the import and export of certain animal products were signed and duly brought into force by a small number of countries. (See Annex).

[1] *Ibidem.*

The Economic Committee was also asked to examine, in conjunction with the International Institute of Agriculture and other bodies, the problem of the regulations in various countries relating to the import and export of meat and live animals, with a view to arriving, if possible, at an international agreement. When these problems were taken up by the Committee in 1935, it decided to forego the procedure of conference and convention and confine itself to recommending standard regulations designed to provide the maximum guarantees which importing countries are justified in requiring from exporters.

iii) *Wheat and Sugar.*

Another Sub-Commission of the Conference recommended that "plans should be adopted for coordinating the production and marketing of certain commodities" and laid down the principles on which agreements for this purpose should be based. Two principal results may be recorded:

a) a Conference of wheat exporting and importing countries called by the League in August 1933 reached a two-year agreement binding the former countries to limit exports to specified contingents and the latter 1) not to extend their home production, 2) to lower their duties on wheat if the world price rose above a given figure and 3) to accompany tariff reductions by appropriate modifications in quota policy. An Advisory Wheat Committee was set up to watch over the execution of the Agreement.

In the absence of the hoped-for price rise, the provision regarding duties and quotas did not operate, and the net effect of the Agreement on the central problem of artifically expanded production and high agricultural protectionism in many of the normally wheat-importing countries, was negligible. Great difficulties were, moreover, encountered—owing to harvest vagaries—in applying the limitations on the exports from certain great producing countries.

Negotiations for a new agreement in 1939, interrupted by the war, were taken up later between representatives of the Argentine, Australia, Canada, the United Kingdom and the United States and a Memorandum of Agreement between these countries was announced in Washington in July 1942. Pending the conclusion of a comprehensive international agreement after the war, provision was made for the control of production, stocks and exports, co-operation between the signatories in stabilising prices and the constitution of a wheat pool for inter-governmental relief in war-stricken and other necessitous areas.

b) After much preliminary negotiation, an International Sugar Conference was called by the League in 1937 and led to a 5-year agreement providing for an elastic system of export quotas in exporting countries, a stabilisation of import quotas, and/or of domestic production in importing countries, and the creation of an International Sugar Council to administer the scheme. An interesting point in the agreement was the provision that a prohibition of imports from a country infringing this Agreement was not to be considered a breach of M.F.N. obligations *vis-a-vis* that country.

This Agreement—which represented a further stage in the international regulation of the sugar industry—has contributed towards stabilising and giving some support to the international sugar market. It expired this year, but steps are being taken to keep it informally in being between the United Nations.

CHAPTER VIII

THE NEW PROTECTIONISM: POLICY AND PROPOSALS, 1933-36.

1. Evolution of Trade Relationships and Policy.

(a) *The course of world trade.*

The lowest point in the world economic depression was reached in the course of 1932 and the following years were a period of slow and uneven recovery. The recovery was to be observed in most primary producing countries and in industrial countries pursuing expansionist credit and/or work-creation policies behind a depreciated or controlled exchange. It was in general not shared by the members of the "gold bloc" in which the painful process of deflation was pursued right up to 1936.

Nor, as the following indices show, was it accompanied for several years by an equivalent increase in world trade, the rapid expansion of which, under the stimulus of foreign lending, had been characteristic of the post-war recovery period.

Industrial production[1]	*1929*	*1932*	*1933*	*1934*	*1935*	*1936*	*1937*
World	100	70	78	86	96	111	119
United States	100	53	63	68	79	94	103
United Kingdom	100	84	88	99	106	116	124
Sweden	100	89	91	110	123	135	149
France	100	72	81	75	73	78	82
Netherlands	100	84	91	93	90	91	103
Trade in raw materials[2]							
Value in gold	100	36	35	35	36	40	51
Value in U. S. $	100	36	35	35	45	67	86
Value in £	100	50	51	57	60	66	85
Quantum of world trade[2]	100	75	76	78	82	86	97

[1] Taken from "World Production and Prices 1938/9", League of Nations, Geneva.
[2] Taken from "Review of World Trade, 1938", League of Nations, Geneva.

Trade in raw materials and trade between countries enjoying relative currency stability and freedom from extraordinary restrictions (e.g. the sterling area) expanded considerably; elsewhere, there was an almost general stagnation.

The failure of trade to respond to rising production must be ascribed to a combination of two factors: first, the concentration, in national recovery programmes everywhere, on the development of the home market; secondly, the new restrictions on trade. In the following sections, the causes and character of the new customs, currency, and other official restrictions will be briefly reviewed; the parallel growth of unofficial limitations on international competition must, however, not be forgotten. The limitation of competition between domestic producers as a result of the rationalisation and cartellisation of industries, which often formed part of national recovery programmes, was accompanied by a rapid extension of international industrial agreements, many of which, *inter alia,* allocated the foreign markets in which each national industry might sell its products and fixed prices and export quotas.

(b) *The currency factor and the growth of quotas, exchange control and clearings.*

If the new protectionism was primarily the result of national reactions to the effects of the economic depression on domestic prices and production and employment, it was increasingly conditioned by currency factors. By 1933, four groups of currency systems were operating: i) the 'gold bloc'—France, Switzerland, the Netherlands, Italy (until 1934), Belgium and Luxemburg (until 1935), ii) countries maintaining an 'artificial' parity or checking depreciaton by means of exchange control and other restrictions (Germany, Italy after 1934, in varying degrees certain of the primary producing countries of Europe and many Latin-American countries), iii) countries with depreciated and controlled exchanges (most Latin-American and some European countries such as Greece and Czechoslovakia); iv) countries with depreciated and free exchanges (altogether some 20 countries by 1933, including the United States, the United Kingdom, the British Dominions, Sweden and Norway).

The first and second groups—countries with over-valued currencies and consequently high price-levels—resorted to increasingly stringent measures aimed at restricting imports and encouraging exports. In the 'gold bloc' recourse was mainly had to an extensive system of import quotas and export bounties[1]; in exchange control countries such measures were first supplemented by the rationing of foreign exchange and later overshadowed by a rapidly developing technique designed to minimize the need for and maximize the acquisition of free foreign exchange (see (d) below). One of the principal instruments of this technique was the clearing agreement; the growth of a network of these agreements over the European continent and between certain European and Latin-American and Asiatic countries was perhaps the outstanding feature of trade relationships in the period. By 1937 about 12% of world trade, and more than 50% of the trade of Bulgaria, Germany, Greece, Hungary, Yugoslavia, Roumania and Turkey passed through clearings.

Countries of the fourth—and some of the Latin-American countries of the third—group were in a position to pursue policies of domestic reflation without recourse to extreme measures of trade restriction. The fair degree of currency stability within the sterling area facilitated an expansion of trade between the members of that group.

(c) *Characteristics of the new Trading Relationships: regionalism, discrimination, bilateralism, instability.*

The system of multilateral trade, already seriously affected, broke down with the collapse of the world monetary system. There ensued a general movement towards bilateralism—the endeavour by each country to achieve reciprocity in trade by reducing imports from countries with which its trade balance was passive.

The same general factor provoked attempts on the part of many countries to develop their exchanges of goods and realize a system of settlements within restricted areas. Thus, the United Kingdom and France expanded their imperial trade. Germany sought new outlets and sources of supply in Central and South Eastern Europe and in Latin-America. The mem-

[1] Among countries maintaining freedom of exchange dealings, the proportion of total imports (value) in 1937 subject to licence or quota restrictions was approximately as follows: France 58%; Switzerland 52%; the Netherlands 26%; Belgium 24%; Ireland 17%; Norway 12%; United Kingdom 8%; Sweden 3%.

bers of the "gold bloc" endeavoured to expand their mutual trade (Brussels Protocol, 1934), while several of the smaller European countries concluded—or adumbrated—regional trade agreements for the same purpose.

With certain notable exceptions (for example, the efforts of the 'Oslo Group', the above developments were accompanied by the creation of new or the extension of existing preferential systems and the emergence of new forms of commercial discrimination. By the Ottawa Agreements of 1932 and the Import Duties Act introduced in the United Kingdom the same year, a general preferential system within the British Commonwealth and the Colonial Empire was established. The German trading methods were frankly and flagrantly discriminatory. Through the use of exchange control and quantitative restrictions, the M.F.N. clause lost much of its value in European commercial relationships.

Those relationships were as complex and disparate as they were unstable. Each bilateral agreement was *sui generis,* designed to meet the special trade requirements of, and to afford effective reciprocal advantages to, the signatories. Commercial agreements, in truth, became instruments of commercial warfare. The degree of instability in commercial relationships may be illustrated by the fact that the Economic Committee, when requested by the League Council in 1935 to examine the feasibility of an international agreement providing for notification one month in advance of proposed changes in tariffs and other restrictions, reported that there was "no chance at present of achieving such an agreement"[1].

(d) *The consolidation of restrictions; the growth of State control; the pursuit of autarky.*

After the post-war period of economic and monetary dislocation, emergency trade restrictions had been gradually relaxed and the old pattern of commercial relations largely restored. When the halting recovery from the depths of the Great Depression began in 1933, the course of policy was in general fundamentally different. The "planning" of foreign trade came to be more and more widely accepted as a normal function of the State, and the weapons which had been forged as an emergency

[1] Report to the Council, League of Nations document C.377.M.248. 1936. II. B.

defence of prices, production or currency were not discarded, but tended to be pressed into service as permanent elements of trade regulation, dovetailed into programmes of national economic development.

The evolution was accomplished gradually, often involuntarily, often reluctantly. It was most rapid and complete in the totalitarian countries; but even countries where the tradition of open competition and free trade was strongest (e.g., the United Kingdom—see below) were not immune.

In this development, three events stand out—the adoption of quotas as an integral part of the French bargaining apparatus in the autumn of 1933; the adoption of agricultural quotas in England in 1933; and the New Plan introduced in Germany in the autumn of 1934, by which every foreign trade transaction was brought under centralized control and exchange control became the instrument of an intensely nationalistic economic policy. Under a fully planned national economy, like that of the U.S.S.R., tariffs are irrevelant; they became increasingly so in Germany and Italy.

The years following 1933 witnessed not merely the consolidation of measures running counter to the recommendations of all post-war economic conferences, but also the evolution and spread of a conception of foreign trade repudiating the fundamental postulates of the liberal doctrine which underlay those recommendations. In one country after another, the decisions of individual traders tended to give place to the decisions of control boards, consumers' choices to a centrally conceived "national interest", often far removed from the maximization of social welfare. Among these national ends, the achievement of autarky held a prominent place. Autarky, which found its most complete expression in the German Four Year Plan of 1936, came to be pursued in varying measures and for varying motives over the greater part of Continental Europe.

(e) *Exchange control and the influence of Germany.*

This new conception of trade was closely associated with, and its institutional expression was indeed dependent upon, the development of exchange control. Many of the weak-currency debtor countries which had been obliged to impose control were anxious to carry out an orderly currency devaluation and re-enter the orbit of free exchanges, but very few—notably Austria, Portugal and one or two Latin-American countries, such as Ecuador, —succeeded in doing so. (See Chapter IX, §3 below).

For the majority, and more particularly for the Central and Eastern European countries, abolition of exchange control demanded, or was held to demand, financial assistance, the scaling-down or consolidation of short-term debts, the assurance of adequate markets and sound internal finance. Such conditions were increasingly difficult to realize.

Germany, seconded by Italy, was the driving force and the exemplar in the new technique of trade regulation. Having embarked on a great programme of rearmament and public works, her trade policy was determined first and foremost by her need of raw materials. So far as possible, imports were diverted from countries demanding payment in free foreign exchange to those which would accept payment directly in the form of German exports—principally South Eastern Europe and parts of Latin America. Exports were also promoted by other measures—adapted to the circumstances of each market—including direct subsidies and indirect subsidisation by means of complicated systems of differential exchange rates and the use of blocked mark accounts. All imports not required for national purposes and requiring payment in free foreign exchange were as far as possible eliminated.

Empirical and opportunist in their origins, new trading methods based on the German model were gradually entrenched in other exchange control countries through the development of new administrative routines and the emergence of new objectives of policy; they spread as a result of retaliation or the adoption of complementary measures in other countries; the methods themselves and the objectives at which they were directed were more and more a source of political friction. Many of the new trading connections, born of misfortune, were cemented by new political groupings.

2. The Montevideo Conference, 1933; the Tariff Agreements Programme of the U.S.A.; British Commercial Policy.

The excesses of the new protectionism in Europe and the new philosophy of international trade provoked a vigorous reaction.

The resistance of the Oslo Group, supported by several of the smaller European countries such as Switzerland, Estonia and Latvia, has already been noted. But in the efforts to prevent further disintegration of world markets and to restore multilateral trade on the basis of relatively equal opportunity the lead was taken by the United States.

On its initiative, the Seventh International Conference of American States (Montevideo, December 1933) resolved:

> "that the Governments of the American Republics will promptly undertake . . . . to reduce the high trade barriers through the negotiation of comprehensive bilateral reciprocity treaties based on mutual concessions . . . .
>
> "Agreements entered into shall include the most-favoured-nation clause . . . ."

This resolution was a precursor of the programme of reciprocal trade agreements on which the United States Government was authorized to embark by the Reciprocal Tariff Agreements Act of May 1934. The Act marked a turning point in United States commercial policy, for it involved the abandonment of the hitherto jealously guarded tariff autonomy. It granted the President, for the period of three years, the power to lower existing Customs duties up to 50% in return for concessions from other States. Agreements under the Act were to be based on the unconditional M.F.N. clause, the benefits of which, however, could be withheld from any country discriminating against United States commerce.

The Act was renewed in 1937, and again in 1940; in the first three years of its existence treaties were concluded with Cuba, Brazil, Belgium, Haiti, Sweden, Colombia, Canada, Honduras, the Netherlands (and colonies), and Finland. The aggregate effect of these agreements on the volume of trade between and the level of tariffs maintained by the contracting parties was considerable.

Moreover, it was the intention and in some, but not all, cases, the effect of these agreements not merely to increase the volume of trade but to increase United States imports in relation to exports and thus bring the United States trading position more into line with that appropriate to a great creditor country.

The United Kingdom, though not unaffected by the trend towards bilateral trade regulation, also threw her weight into the balance in favour of the maintenance of the basic institutions of an international trading system. The salient developments in her commercial policy may be briefly noted.

The Ottawa Agreements of August 1932 had set up an elaborate system of tariff and, in respect of certain commodities, quota preferences between the United Kingdom and the Dominions. The Colonial Empire, earlier in the same year, had extended preferences to the mother-country and other parts of the Empire mainly by increasing tariffs and granting rebates therefrom for Imperial products. In 1934, certain colonies supplemented these measures by quotas—aimed mainly at Japan—on various foreign manufactures, especially textiles.

In the United Kingdom itself, import quotas on industrial products were avoided but quotas on agricultural products were introduced as from 1933 and became an important element in the trade agreements concluded from that year onwards. Agreements were made between 1933 and 1936 with the Argentine, Poland, France, all the Scandinavian and Baltic countries and the U.S.S.R. They provided, in effect, for the purchase of definite quantities of certain British goods (e.g. coal) against quota privileges in the British market and, in some cases, the stabilisation or reduction of duties in either or both contracting countries.[1]

The tariff was used to facilitate the reorganisation of certain British industries and to strengthen their bargaining position in international industrial negotiations (e.g. the negotiations between the British Iron and Steel Federation and the International Steel Cartel).

3. Recommendations by League Bodies.[2]

(a) *The Committee on Clearings, 1935.*

Clearing agreements were first concluded in order to enable certain free-currency countries to collect the service of their debts from, and continue some trade with, the countries with controlled exchanges—particularly Germany, which declared a moratorium on the transfer of debt payments in 1934. The countries with

[1] For the most important agreement of the series, the Anglo-American Treaty of 1938, see Chapter X, §2 below.

[2] See also Chapter V, §3d—The Economic Committee's views on "Equality of Treatment," 1936.

controlled currencies established clearings in order to trade with one another.

The harmfulness of these agreements, which broke up the multilateral system of transfers and tended to reduce the volume of trade and deflect its course into unnatural channels, was generally recognised and, following a decision by the 1934 Assembly, a special Committee was set up to make an enquiry into their causes, scope, methods and results.

The Committee, like most of the Governments consulted, considered[1] that the system could only be regarded as a makeshift involving serious drawbacks and that it should be abolished as soon as possible. The best, though not the only, solution lay in the complete abolition of exchange control, facilitated by debt settlement and "a less restrictive commercial policy which would afford minimum guarantees for export". Failing complete abolition of control over all international financial transactions, commercial transactions at least should be liberated from exchange control. The Committee likewise urged that the conditions—including exchange conditions—under which imports and exports were effected should be left as far as possible to the decision of traders themselves and recommended that, so long as some form of clearing arrangement were unavoidable, it was better to use payment agreements, under which the exporter is paid direct by the importer, usually in the latter's currency.

The other recommendations for attenuating the effects of clearings were likewise based on practical experience. There had been, in the course of 1934/35 some relaxation of exchange controls in certain Latin-American and other countries, accompanied by currency devaluation or the official recognition of depreciated rates, and the practice of private compensation was being extended. The most noteworthy example was Austria, which by a gradual process of decontrol under the guidance of the League Financial Committee, was able during 1934 and the early part of 1935 to devalue, repay short-term blocked accounts and abolish control altogether as regards commercial transactions.

In the course of 1935 and 1936, there was a widespread movement towards a simplification and relaxation of control measures along the lines adumbrated by the Clearings Committee. With

[1] *Inquiry into Clearing Agreements.* League of Nations document C.153.M.83. 1935. II. B.

the economic recovery in 1936/37 and more especially after the devaluation of the "gold bloc" currencies in September 1936, this movement was accelerated and extended, only to be arrested with the recession later in 1937 and with the blackening of the political horizon. (See Chapter IX, §3 below).

(b) *Agricultural Protectionism, 1935.*

The agricultural protectionism practiced by certain industrial countries was discussed at length by the League Assembly of 1934 and an investigation by the Economic Organisation of the League called for. In a reasoned report on the causes and effects of the evolution of agricultural protectionism, published the following year,[1] the Economic Committee came to the conclusion that "the maintenance of a normal current of agricultural imports on the part of the industrial countries is in keeping with the true interests of the nation as a whole and of the agricultural producers in particular. Such a conclusion is obviously incompatible with the existence of unduly restrictive quotas, but it does not in any sense exclude maintenance of reasonable protectionist duties. Certain countries . . . prefer to afford their agriculture what appears to them equitable assistance by means of direct subsidies, the funds for which are provided by duties sufficiently moderate in themselves not to cause any undesirable rise in the cost of foodstuffs within the country".

(c) *The Raw Materials Enquiry, 1936-37.*

The problem of the commercial access to raw materials, which was closely connected with the developments in trade and monetary policy referred to above, was the subject of an enquiry and recommendations by a special League Committee set up in virtue of a resolution of the 1936 Assembly. The Committee published its report in September 1937.[2]

The elements of the problem were very different from what they had been in 1919/1920 (see Chapter I, §7). In spite of the recent expansion of industrial demand, prices of raw materials were still relatively low, stocks plentiful and, with some excep-

[1] Considerations on the Present Evolution of Agricultural Protectionism. League of Nations document C.178.M.97. 1935. II. B.
[2] League of Nations document A.27. 1937. II. B.

tions, exports unhampered by prohibitions and restrictions. The main problem no longer concerned supply, but payment—i.e. the difficulties of countries with a controlled currency in obtaining foreign exchange to pay for their purchases. These difficulties were partly the inevitable result of bilateralism and its forebear exchange control, partly the result of the general growth of trade restrictions which bore heavily on the exports of industrial countries (e.g. Japan and Germany). They were aggravated by the closing of the "open door" in the British Colonial Empire and the tightening up of other imperial preferential regimes.

The Committee came to the conclusion that "the only general and permanent solution of the problem of commercial access to raw materials is to be found in a restoration of international exchanges on the widest basis". The formulation of such a solution naturally fell outside the province of the Committee. As practical remedies, however, it recommended the liberalisation of exchange control and clearing systems along the lines suggested by the Clearings Committee in 1935 (see above) and the granting of financial support to countries wishing to take such measures; the reduction of barriers to trade, for example by the revival and readaptation of the 1927 Prohibitions Convention and the relaxation of preferential tariffs between metropolitan countries and their colonies and dependencies.

In regard to difficulties of supply—which, though of less practical importance, nevertheless raised far-reaching questions of principle—the Economic Committee made certain proposals in a report to the League Council in December 1937. International schemes regulating supplies and prices, it suggested, should be so framed as to afford effective representation and protection of consumers' interests; raw materials should not be subjected to export restrictions, except in pursuance of such international regulation schemes, nor to any export taxes except non-discriminatory duties imposed for revenue purposes or to improve the production, utilisation or marketing of the raw material concerned; and foreigners should have the same opportunities as nationals for developing the natural resources both of sovereign countries and of colonial territories.

The majority of Governments expressed themselves as favorable, on the whole, to these recommendations but did not believe that concerted action was feasible in the existing circumstances. The whole enquiry was without practical results.

CHAPTER IX

THE TRIPARTITE DECLARATION AND PROPOSALS FOR THE LIBERATION OF TRADE, 1936/38

1. The Tripartite Declaration, September 1936.

At the beginning of September 1936, the Economic Committee published a report[1] in which it expressed the opinion that it was indispensable for the restoration of normal international economic intercourse to close the "abnormal gap which separates the price levels of different countries" and called attention to the difficulty of bridging this gap through further deflation. A warning was given that "no currency adjustment can bring about any improvement in the economic situation unless it is accompanied by a relaxation—leading, we should hope, to ultimate abolition—of exceptional import restrictions". The ultimate objective aimed at was the restoration of "a situation in which, irrespective of frontiers, the purchaser can buy what he wants, the debtor can pay what he owes, the tourist can go where he wishes—without encountering, owing to Government intervention, impassible obstacles such as quotas and currency control".

These opinions were specifically endorsed by the League Financial Committee, which also urged that any attempt which might be made by the 'gold bloc' countries to adjust their price levels through devaluation should not be defeated by further devaluation elsewhere.

A fortnight later the French franc was devalued and the Governments of France, the United Kingdom and the United States published a joint declaration, the Tripartite Declaration of September 25th, 1936, affirming their "common desire to foster those conditions which will safeguard peace and will best contribute to the restoration of order in international economic relations, and to pursue a policy which will tend to promote prosperity in the world and to improve the standard of living".

[1] Remarks on the Present Phase of International Economic Relations. Geneva, -936.

After noting the decision of the French Government to devalue the franc, the three Governments agreed "to maintain the greatest possible equilibrium in the system of international exchanges". They went on to state that "the success of the policy set forth above is linked with the development of international trade. In particular, they attach the greatest importance to action being taken without delay to relax progressively the present system of quotas and exchange controls with a view to their abolition". They invited the co-operation of other governments in the policy laid down.

This declaration was welcomed by a resolution of the League Assembly (October 10th, 1936) recommending:

> "all States . . . to organise without any delay determined and continuous action . . . to reduce excessive obstacles to international trade and communications, and in particular to relax and, as soon as possible, to abolish the present systems of quotas and exchange controls."

2. Proposals Aiming at Increasing Liberty of International Trade.

After the signature of the Tripartite Declaration, attention was turned to the problem of how to secure that general relaxation of quotas and exchange controls on which the success of the monetary alignment was held to depend.

(a) *International Chamber of Commerce, 1936 and 1937.*

The Council of the International Chamber of Commerce, at a meeting in Paris on October 16th, 1936, approved a plan drawn up by a group of economists, aiming at restoring world-wide multilateral trade. Under this plan multilateral agreements, and the general use of unconditional M.F.N., were made the ultimate objective, but in the meantime bilateral treaties "consciously used as an instrument for the demobilisation of trade barriers" were recommended.

At the biennial Congress of the Chamber, held in Berlin in July 1937, a detailed programme was put forward, the essential elements of which are similar to those which the Economic Committee was elaborating and published two months later (see below).

(b) *The Buenos Aires Conference, 1937.*

The Inter-American Conference for the Maintenance of Peace, held at Buenos Aires in December 1936 recommended

> "That the American States abstain, so far as possible, from raising or augmenting tariff barriers and every other kind of restrictions which directly or indirectly hinder international trade and resulting payments;
>
> "That immediately, and to the extent that the several national economies permit, a policy of abolishing and gradually reducing the said excessive or unreasonable prohibitions and restrictions upon international commerce be undertaken and carried forward by each of the said States, through the conclusion or revision of bilateral economic or commercial agreements and treaties and through unilateral action by each country. . . ."

(c) *The Hague Convention, 1937.*

An attempt at concerted action to liberalize trade between themselves was made by the Oslo Powers. Under the Hague Convention of May 1937, the Netherlands and the Belgium-Luxemburg Union agreed to abolish all quotas and to impose no new barriers on goods from other members of the group, while Denmark, Norway, the Netherlands East Indies, Sweden and Finland agreed not to raise tariffs or impose new restrictions.

This Convention was of special interest because it brought together countries with different commercial policies, some of which afforded tariff protection only, while others applied quotas and one (Denmark) practised exchange control. Owing to the economic recession and the gathering political crisis, it was allowed to lapse after one year (Stockholm Declaration, May 1938).

(d) *The Economic Committee's Scheme, September 1937.*

In a report to the League Assembly in September 1937, on the carrying out of the programme of the Tripartite Declaration,[1] the Economic Committee outlined a scheme of international

[1] League of Nations document C.358.M.242. 1937. II. B.

action for the purpose of restoring normal economic relations. Under this scheme, in effect, the countries of Western Europe were to relax those restrictions which bore most heavily on the Central and Eastern European States, while the latter, relieved of their most acute difficulties by such measures, and the provision of financial assistance, were to reciprocate by the removal or relaxation of exchange control.

The Committee proposed that Governments should make a joint declaration on the lines of the Tripartite Declaration of September 1936, setting out objectives and methods.

> The Governments, it recommended, "should affirm their determination to do away as soon as possible with quotas—with the exception of any whose object is to ensure the application of industrial agreements aiming at the improvement of international economic relations or which are justified by flagrant dumping; to increase substantially quotas which cannot be immediately abolished as the consumption demand increases; to improve the operation of the quota system, so as to avoid so far as possible any discrimination; to achieve greater stability in the matter of tariffs, and, when necessary, to reduce to a reasonable level duties on goods not subject to quotas. Apart from autonomous measures which would be taken simultaneously, they should signify their intention of undertaking a revision, in the same spirit, of the provisions relating to quotas and tariff guarantees in their commercial agreements, their payment and clearing agreements being revised on similar lines for the purpose of mitigating the restrictive effects of exchange control. The economic programme should be completed by provisions tending to facilitate the freer circulation of raw materials in accordance with the recommendations of the Committee entrusted with the study of this problem. (See Chapter VIII, §3 above.)
>
> "The countries concerned would also have to consider whether measures could be adopted to carry further the principles of the Tripartite Agreement as regards the relative stability of their currencies, either by autonomous undertakings or by concerted action.

"They would also have to examine what means can be devised for extending the system of free currencies and securing the abolition of exchange controls, the possibility of giving assistance to countries which practise such controls but whch are anxious to abandon them and are prepared themselves to pursue an appropriate financial policy, and, in that event, the conditions which would have to be fulfilled for such action to be effective.

"Finally, it would be necessary for the countries concerned to arrive at some agreement as to the principles of economic and financial management which would have to be maintained by the States which are parties to the Declaration."

The Committee made it clear that such general economic collaboration postulated a political settlement and a concerted policy for the limitation of armaments.

A point of particular interest is the stress laid by the Committee in the above report on the need of convincing public opinion, if the necessary support for the proposed scheme was to be forthcoming, that an increase in general welfare depended on an expansion of international trade and that the preservation of peace itself was dependent upon the reversal of the prevailing autarkic tendencies.

(e) *The Van Zeeland Report, 1938.*

In April 1937 the British and French Governments requested the Belgian Premier, M. van Zeeland, to enquire into "the possibility of obtaining a general reduction of quotas and other obstacles to international trade". M. van Zeeland's report was published in January 1938. His recommendations were very similar to those made by the Economic Committee, but some were made more concrete and others added. These may be summarized as follows:

Tariffs.

A general agreement to be concluded between Governments not to raise existing duties or impose new ones and gradually to reduce exceptionally heavy duties. Reciprocal commercial agreements to be based on M.F.N. Exceptions to M.F.N. to be admitted in order to allow the formation of group agreements aimed at lowering tariff barriers, provided these are open to the accession of other States.

Measures of "indirect protectionism" to be suppressed. Recourse to be had to arbitral bodies—such as provided in the "Procedure for the friendly settlement of differences of an economic character" instituted by the League in 1932—in case of disputes arising, e.g. out of anti-dumping legislation.

Quotas.

Industrial quotas to be suppressed and replaced, if necessary, by tariffs or "tariff quotas."

Agricultural quotas to be enlarged, if abolition were impossible.

Financial Measures.

In order to permit countries with exchange control to relax and finally abolish it and make the currency adjustments necessary for this purpose, creditor countries to remove restrictions on capital exports; frozen assets and arrears in clearing agreements to be consolidated and credits provided to ease the transition.

In M. van Zeeland's view a coordinated scheme, embracing such measures, could best be carried out within the framework of a *Pact of International Economic Collaboration* designed "to assist the participants to raise the standard of living of their nationals by improving the general well-being".

Such a plan, clearly, could not be realized without the support of the principal economic Powers, the United States, the United Kingdom, France, Germany and Italy. The first stage should therefore be a conference of representatives of these Powers, which, if they agreed to take part in an attempt at economic collaboration, might then set up a special bureau to consult with other governments and draw up a programme of action. The conclusion of the Pact would be the final stage, marking a general acceptance of that programme.

M. van Zeeland made it clear that guarantees would be required, "necessarily political in their nature", that the financial assistance, credit facilities or facilities for obtaining supplies would not be diverted to serve warlike ends. The success of his proposals thus depended on political conditions, which, as is only too well known, were never realised. The only definite action taken to implement any of those proposals was the relaxation of the British embargo on foreign loans (February 1938); this embargo was later reinstituted.

3. The Course of Policy in the Year Following the Tripartite Declaration.

The devaluation of the French franc was immediately followed by that of the Swiss franc and the guilder; Belgium, as well as the Netherlands and Switzerland, adhered to the Tripartite Agreement, and a series of other States—Italy, Czechoslovakia, Greece, Latvia, Turkey—adjusted their currencies. Business activity and international trade received an immediate stimulus; and the effects on commercial policy, though limited, were encouraging. Before the end of October 1936, tariff reductions and/or quota relaxations had been announced in France, Switzerland, the Netherlands, Italy, Czechoslovakia, and Latvia.

Although this tempo was not maintained, a distinct movement towards freer trade was noticeable throughout the year following the signature of the Tripartite Agreement. It was a period of growing economic activity, largely connected with rearmament, and of rapid expansion of trade, mainly between primary producing and industrial countries. The scarcity of certain raw materials led to some important relaxations of restrictions in industrial countries (e.g., the reduction or removal of duties on iron and steel in the United Kingdom, Germany and Japan); a series of crop failures accounted for the enlargement or abolition of quotas on grain and other foodstuffs in Germany, Italy and several other European countries; the improved position of primary producing countries enabled many of them substantially to relax exchange control (Denmark, Roumania, Yugoslavia) or to abolish it completely (Portugal); similarly, Czechoslovakia abolished control as regards commercial transactions.

But the movement was by no means general and the recovery on which it was based showed clear signs of instability. The devaluation in France was followed by various increases in costs, and thus failed to produce the improvement in the competitive position of the country that had been expected. The franc depreciated further in the summer of 1937 and various quota and tariff concessions introduced in September 1936 were subsequently withdrawn. A fresh fall in commodity prices began in the early summer of 1937, exerting a renewed strain on the exchange position of the primary producing countries. The United Kingdom took no lead in breaching the defences of restrictions and in Germany and Italy—neither of which acceded to the Tripartite Agreement—the drive towards autarky was vigorously prosecuted.

CHAPTER X

PROPOSALS AND POLICY AT THE ELEVENTH HOUR

1. Proposals by International Bodies.

(a) *League Report on Exchange Control, 1938.*

In the summer of 1938 a joint Committee, consisting of members of the Economic and Financial Committees, issued a report on exchange control.[1]

The Committee stated clearly that the responsibility for providing conditions which would enable the exchange-control countries that wished to do so to return to a free-currency system lay not only with those countries themselves, but also with the creditor countries—more especially those industrial countries which were pursuing a policy of high agricultural protectionism or maintained high tariffs and rigid quota restrictions.

It considered that, though the time was not propitious for collective action, there was much that individual countries could do on their own initiative. It therefore set out in detail the steps which certain countries had been able to take to relax their controls and the principal obstacles to further abrogation. Many smaller countries, it observed, had great difficulties in relaxing their controls so long as control was maintained by countries which took a large share of their exports, and decontrol, which had been facilitated by the rise in commodity prices and the value of world trade which took place after 1935, was almost impossible during an industrial recession such as had occurred in 1937.

(b) *The Lima Conference, December 1938.*

Efforts towards freer trade—and more particularly the trade agreements programme of the U.S.A.—were again supported by the American States at the Lima Conference of December 1938. After denouncing (a) unreasonably high tariffs, (b) quotas,

[1] League of Nations document C.232.M.131. 1938. II. A.

licences, exchange controls and other forms of quantitative restrictions and (c) discrimination of all kinds, the Lima Conference resolved:

> "To endorse the negotiation of trade agreements, embodying the principle of equality of treatment, as the most beneficial and effective method of extending and facilitating international trade".

and recommended the substitution of reasonable tariffs for other forms of trade restriction.

(c) *The Economic Committee and the International Chamber of Commerce, June 1939.*

In its *Observations on the Present Prospects of Commercial Policy* published in June 1939, the League Economic Committee put forward a series of interrelated proposals designed to achieve some progress—whatever the limitations imposed by existing circumstances—in the direction of greater freedom and equality of trade. Countries desiring to see a "progressive, all-round expansion of trade on the basis of the maximum possible freedom and equality" were invited to adopt a dynamic policy aimed at a common objective—namely, 'an improvement in standards of living the world over". To this end it was hoped that each country would examine with every other what tariff or other concessions it was prepared to make and anxious to obtain. Free currency countries should maintain a liberal commercial policy; countries with controlled currencies should relax control as opportunity offered and be given every possible help from outside. Except in cases of flagrant discrimination, most-favoured-nation treatment should not be withheld from countries practising exchange control, since any measures tending to divide the world still further into two opposing camps would, it was considered, defeat the purpose in view.

The International Chamber of Commerce, at its Tenth Congress (Copenhagen, June 1939), made a bid for political appeasement through economic appeasement, advocating "a procedure and policies which will render unnecessary the movement of armies across frontiers and which will substitute therefor an increasing movement of goods, services and capital". "Believing that the gateway to peace is still open", it recommended that experts appointed by each of the Great Powers should formulate "a plan of adjustment which will give to all countries of the world a fair opportunity to share the resources of the world".

2. Attempts by Governments to Improve the Conditions of International Trade.

Among the efforts made in this period to realise some progress along the lines consistently advocated by international bodies, mention must first be made of the later United States tariff agreements.

By the outbreak of the war, the United States had concluded agreements—the effect of which on world trade was enhanced through the operation of M.F.N.—with 20 countries, covering about 60% of her trade. The most important were the Agreements concluded with the United Kingdom (including the British non-self-governing Empire) and Canada [1] in November 1938, which not only brought about a reduction in tariffs on a substantial volume of world trade but a relaxation of the British Imperial Preference system and thus an extension of the principle of equal trading opportunity.

Other moves in the same direction were the Anglo-Irish Trade Agreement of April 1938, putting an end to the commercial war between those two countries, the abolition of numerous quotas by France and Belgium in August of the same year, and the attenuation of licencing restrictions in Australia and Denmark.

In January and March 1939, discussions took place between representatives of British and German industries, at which the broad lines of a far-reaching agreement were worked out regarding the allocation of markets for coal and certain industrial products on the basis of a system of cartels supported by the Governments concerned. This plan, it may be noted, would have involved an important modification of British commercial policy. The negotiations were abandoned after the occupation of Czechoslovakia by Germany.

[1] This agreement revised and extended the earlier agreement between the U. S. A. and Canada concluded in 1935.

3. The Course of Policy, 1938-1939.

The fall in commodity prices in 1937 and the business recession accompanying it were arrested in the course of the following year and trade again moved upwards; but the favorable influence of economic factors on commercial policy was henceforth heavily outweighed by the political crisis. Faced with the prospect of another universal war, the most liberal countries of Europe were obliged to take precautionary measures at home involving new restrictions—measures such as restrictions on the export of foodstuffs and raw materials, the intensification of agricultural production, the safeguarding and expansion of vital industries.

Eleventh hour attempts at economic appeasement in Europe,—for example, the Anglo-German discussions mentioned above—were frustrated by political events. There was a modest revival of international lending, mainly in the form of Government loans and export credits, behind which, however, political motives were clearly discernible. Otherwise, the main tendencies noted in preceding years continued to operate and were in some cases accentuated—the struggle for self-sufficiency; the movement towards State regulation of trade; the disintegration of world markets; the concentration of trade between members of economic or currency "blocs" (for example, the United Kingdom with the sterling area and the Empire, Japan with her possessions and Manchuria, Germany with South-Eastern Europe); the simultaneous extension in different geographical spheres of relations based on comparatively free trade, individual transactions and non-discrimination, and of the system of closely regulated, restrictive and necessarily discriminatory trading under a regime of exchange control.

This conflict of commercial policies—the main lines of which have been indicated in Chapter VIII above—was a striking feature of the twilight period preceding the outbreak of war. In Germany and Italy, the rigorous control of capital movements and foreign trade had become an indispensible element in the policy of mobilising all national resources for purposes of military preparedness. The maintenance and development of exchange control in these and the smaller countries which had increasingly come under their economic influence was thus essentially an aspect of the gathering political conflict.

ANNEX

Parties to International Agreements Affecting Commercial Relationships Concluded and Brought Into Force Under the Auspices of The League of Nations

I. Customs Formalities.

International Convention relating to the Simplification of Customs Formalities. Geneva, November 3rd, 1923. Entered into force: November 27th, 1924.

Australia
Austria
Belgium
Brazil
United Kingdom
Bulgaria
China
Czechoslovakia
Denmark
Egypt
Estonia
Finland
France
Germany
Greece
Hungary
India
Iran
Iraq
Italy
Latvia
Luxemburg
Morocco (French Prot.)
Netherlands
New Zealand
Norway
Poland
Roumania
Union of South Africa
Sweden
Switzerland
Syria & Lebanon
Thailand
Tunis (French Prot.)
Yugoslavia

II. International Commercial Arbitration.

1). Protocol on Arbitration clauses. Geneva, September 24th, 1923. Entered into force July 28th, 1924.

Albania
Austria
Belgium
Brazil
United Kingdom
Various British Colonies, Protectorates, Overseas territories and territories under British Mandate.
Czechoslovakia
Denmark
Danzig
Estonia
Finland
France
Germany
Greece
India
Iraq
Italy
Japan
Luxemburg
Monaco
Netherlands
Netherlands Indies, Surinam, Curacao
Newfoundland
New Zealand
Norway
Poland
Portugal
Roumania
Southern Rhodesia
Spain
Sweden
Switzerland
Thailand

2). Convention on the Execution of Foreign Arbitral Awards. Geneva, September 26th, 1927. Entered into force July 25th, 1929.

Austria
Belgium
Belgian Congo & Ruanda-Urundi
United Kingdom
Various British Colonies, Protectorates, Overseas territories and territories under British Mandate.
Czechoslovakia
Denmark
Danzig
Estonia
Finland
France
Germany
Greece
India
Italy
Luxemburg
Netherlands
Netherlands Indies, Surinam, Curacao
Newfoundland
New Zealand
Portugal
Roumania
Spain
Sweden
Switzerland
Thailand

III. Abolition of Import and Export Prohibitions and Restrictions.

1). International Convention (and Protocol) for the Abolition of Import and Export Prohibitions. Geneva, November 8th, 1927.

2). Supplementary Agreement (and Protocol) to the Convention of November 8th, 1927. Geneva, July 11th, 1928.

Entered into force—January 1st, 1930
Lapsed —June 30th, 1934

*Austria	†Japan
*Belgium	*Luxemburg
†United Kingdom	†Netherlands and Curacao
*Czechoslovakia	†Norway
†Denmark	†Portugal
*Finland	*Roumania
*France	*Sweden
*Germany	*Switzerland
*Hungary	†United States of America
*Italy	*Yugoslavia

Note—Countries marked * ceased to be bound by these instruments as from July 1st, 1930; those marked † withdrew between that date and June 30th, 1934.

IV. Exportation of Hides, Skins and Bones.

1). International Agreement relating to the Exportation of Hides and Skins, with Protocol. Geneva, July 11th, 1928. Entered into force October 1st, 1929.

Austria	Italy
Belgium	Luxemburg
United Kingdom	Netherlands
Czechoslovakia	Norway
Denmark	Poland
Finland	Roumania
France	Sweden
Germany	Switzerland
Hungary	Yugoslavia

2). International Agreement relating to the Exportation of Bones, with Protocol. Geneva, July 11th, 1928. Entered into force October 1st, 1929.

Austria	Italy
Belgium	Luxemburg
United Kingdom	Netherlands
Czechoslovakia	Norway
Denmark	Poland
*Finland	Roumania
France	Sweden
Germany	Switzerland
Hungary	Yugoslavia

* Denounced by Finland in 1936.

V. Veterinary Questions.

1) International Convention for the Campaign against Contagious Diseases of Animals. Geneva, February 20th, 1935. Entered into force March 23rd, 1938.

Belgium	Poland
Bulgaria	Roumania
Iraq	U.S.S.R.
Latvia	Turkey

2). International Convention concerning the Export and Import of certain Animal Products. Geneva, February 20th, 1935. Entered into force December 6th, 1938.

Belgium	Roumania
Bulgaria	U.S.S.R.
Latvia	Turkey

3 . International Convention concerning the Transit of Animals, Meat and other Products of Animal Origin. Geneva, February 20th, 1935. Entered into force December 6th, 1938.

Belgium	Roumania
Bulgaria	U.S.S.R.
Latvia	Turkey

VI. Unification of Laws on Bills of Exchange, Promissory Notes and Cheques.

1). Convention for the Settlement of certain Conflicts of Laws in connection with Bills of Exchange and Promissory Notes, and Protocol. Geneva, June 7th, 1930. Entered into force January 1st, 1934.

Austria	Monaco
Belgium	Netherlands
Danzig	Netherlands Indies, Curacao and Surinam
Denmark	Norway
Finland	Poland
France	Portugal
Germany	Sweden
Greece	Switzerland
Italy	U.S.S.R.
Japan	

2). Convention for the Settlement of Certain Conflicts of Laws in connection with Cheques, and Protocol. Geneva, March 19th, 1931. Entered into force January 1st, 1934.

Danzig	Netherlands
Denmark	Netherlands Indies, Curacao and Surinam
Finland	Nicaragua
France	Norway
Germany	Poland
Greece	Portugal
Italy	Sweden
Japan	Switzerland
Monaco	

3). Convention providing a Uniform Law for Bills of Exchange and Promissory Notes, and Protocol. Geneva, June 7th, 1930. Entered into force January 1st, 1934.

Austria	Monaco
Belgium	Netherlands
Danzig	Netherlands Indies, Curaco and Surinam
Denmark	Norway
Finland	Poland
France	Portugal
Germany	Sweden
Greece	Switzerland
Italy	U.S.S.R.
Japan	

4).Convention providing a Uniform Law for Cheques, with Protocol. Geneva, March 19th, 1931. Entered into force January 1st, 1934.

Danzig	Netherlands
Denmark	Netherlands Indies, Curaco and Surinam
Finland	Nicaragua
France	Norway
Germany	Poland
Greece	Portugal
Italy	Sweden
Japan	Switzerland
Monaco	

5). Convention on the Stamp Laws in connection with Bills of Exchange and Promissory Notes, and Protocol. Geneva, June 7th, 1930. Entered into force January 1st, 1934.

Australia
Austria
Belgium
United Kingdom
Various British Colonies, Protectorates, Overseas territories and territories under British Mandate.
Danzig
Denmark
Finland
France
Germany
Ireland
Italy
Japan
Monaco
Netherlands
Netherlands Indies, Curaco and Surinam
Newfoundland
Norway
Poland
Portugal
Sweden
Switzerland
U.S.S.R.

6). Convention on the Stamp Laws in connection with Cheques, and Protocol. Geneva, March 19th, 1931. Entered into force November 29th, 1933.

Australia
United Kingdom
Various British Colonies, Protectorates, Overseas territories and territories under British Mandate.
Danzig
Denmark
Finland
France
Germany
Greece
Ireland
Italy
Japan
Monaco
Netherlands
Netherlands Indies, Curaco and Surinam
Nicaragua
Norway
Poland
Portugal
Sweden
Switzerland

PART II

AN ANALYSIS OF THE REASONS FOR THE SUCCESS OR FAILURE OF INTERNATIONAL PROPOSALS

CHAPTER I

INTRODUCTION

In Part I of this study, the commercial policy pursued by States in the inter-war period was compared with the recommendations on the subject made by international conferences, committees, and other authoritative bodies. In regard to the crucial issues, there emerged from that comparison a striking paradox: the international conferences unanimously recommended, and the great majority of Governments repeatedly proclaimed their intention to pursue, policies designed to bring about conditions of "freer and more equal trade"; yet never before in history were trade barriers raised so rapidly or discrimination so generally practised. In spite of this paradox, however, a great deal was accomplished by these various international bodies in the field of commercial policy during the inter-war period.

The objects of this second part of the study are:

(a) to consider the reasons for the success, the partial success, or the failure of the recommendations of the conferences, and

(b) to draw lessons from those successes and failures.

We shall have to examine not only the reasons why commercial policy followed the course we know it to have followed, but also why the recommendations took the form they did. We shall have to examine whether the procedures adopted were suited to their purpose and to consider the varying fortunes of each group of proposals at different periods. Only thus will we be in a position to draw lessons from the experience presented.

The great international conferences of the first post-Armistice decade aimed at the following main objects:

(a) the extension of the code of international commercial law, the extension of international commercial arbitration, the general application of administrative principles tending to facilitate trade and the removal of various legal, fiscal and administrative obstructions to trade;

(b) the abolition of war-time trade prohibitions and controls and, later, the removal of the hard core of prohibitions and restrictions that remained in a number of countries;

(c) the restoration of pre-war tariff practices involving

(i) the suppression of fighting tariffs and measures of tariff warfare;
(ii) the re-establishment of the system of long-term commercial treaties which had been shattered during the war;
(iii) the restoration of multilateral trade by the removal of all forms of discrimination and the widest possible application of the most-favored-nation principle;
(iv) greater stability in tariff rates and classifications.

(d) the elimination of "excessive" or "artificial" rates and, later, the general reduction of tariff levels;

(e) special agreements between some of the small countries of Central and Eastern Europe for the purpose of achieving (b), (c) and (d).

Substantial progress was made in regard to (a)—relatively minor matters not affecting the central issues of policy—throughout the inter-war period, but more especially up to 1930 or 1931. On (b) and the various problems falling under (c), the heritage of the Great War was partly liquidated and some progress made towards a restoration of "normal" practices; but such progress was limited and, by and large, all that had been gained—and more—was lost after 1929. In regard to (d), the reduction of tariff levels—the central recommendation of the World Economic Conference of 1927, an objective proclaimed by business and labour opinion in almost all countries and to the realization of which the States Members of the League of Nations pledged themselves in no uncertain terms—nothing whatever was achieved, unless one counts as an achievement the temporary lull in the protectionist hurricane that occurred in 1927 and 1928. The efforts to bring about (e) failed almost completely.

After 1929, as the Great Depression deepened, measures of quantitative restriction on trade, exchange controls and open and concealed discriminatory practices, again made their appearance, especially in Europe. The International Monetary and Economic Conference of 1933 and a long series of lesser gatherings, official and unofficial, world-wide and continental, reaffirmed the basic doctrines set forth at Brussels, at Genoa, and at Geneva in the 1920's. By one plan after another—the Oslo Pact of 1930, the Ouchy Convention and the Stresa plan of 1932, the Tripartite Agreement of 1936, the Van Zeeland proposals of 1938—Governments sought to find some practical means of applying those doctrines or of creating conditions which would facilitate their application. All those efforts failed; the recommendations were practically without effect.

CHAPTER II

INTERNATIONAL COMMERCIAL AND FISCAL LEGISLATION

1. Proposals and Achievements

Before taking up the problems of commercial policy proper, we may deal very briefly with the group of problems in regard to which substantial success was achieved. These problems were, as stated above, of four kinds:

(a) the development of an international code of commercial law;

(b) the extension of international commercial arbitration;

(c) the general acceptance of certain administrative principles tending to facilitate trade;

(d) the removal of certain legal, fiscal and administrative obstructions to international trade.

They may be considered together and in roughly chronological order:[1]

(i) *Simplification of Customs Formalities.*

"The removal of obstacles to trade created by instability in administrative and legal measures and the publication of tariffs in easily accessible form," which the Genoa Conference had recommended, was substantially achieved by the International Convention of 1923. This Convention also provided for the simplification of regulations and procedure, for greater expedition and non-discrimination in the application of regulations, for appropriate means of redress, for greater facilities to commercial travellers and for the simplification of formalities regarding "certificates of origin".

The Economic Committee was able to record in 1927 that "striking progress" had been achieved as a result of the Convention, which was brought into force in some 35 countries.

[1] For a fuller description, see Part I, Chapters II (§2 and 3), V (§2,c) and VII (§2.ii.).

(ii) *The Prevention of Unfair Competition.*

Before the last War, certain international Conventions relating to the suppression of unfair competition had been entered into, but the protection thus afforded was inadequate because many important States were not Parties, because the practices to be repressed were not clearly defined and because the procedure for obtaining redress was defective.

These difficulties were partly met by the International Convention for the Protection of Industrial Property of 1925—based on drafts worked out by the League Economic Committee—which was brought into force in some 25 States and territories, and by the supplementary international agreement concluded in 1934.

Of greater importance was the development of

(iii) *International Commercial Arbitration.*

It was essential to the efficient functioning of a system of arbitration, such as was being built up by the International Chamber of Commerce, that the validity of arbitration clauses in commercial contracts between parties in different countries should be recognized by national courts. At the instance of the Genoa Conference, the League Economic Committee worked out an international protocol for this purpose. This Protocol, which was opened for signature in 1923, provided for the enforcement of arbitral awards made within the territory in which execution was sought; it was completed in 1927 by a Convention binding the Parties—which included all important European trading countries—to ensure the execution of awards given outside their territories. The Protocol received over 30, the Convention some 25, ratifications and accessions.

(iv) *Assimilation of Laws regarding Bills of Lading and Bills of Exchange.*

Following the recommendation of the Brussels Conference in 1920 on this subject, the Hague rules relating to bills of lading, drawn up by the International Law Association, were incorporated in an International Convention concluded at Conferences held at Brussels in 1922 and 1923.

A considerable advance towards the assimilation of laws relating not only to Bills of Exchange but also to Promissory Notes and Cheques was made by a series of six international Conventions concluded under the auspices of the League in 1930 and 1931. These Conventions were brought into force in the course of 1933 and 1934 by some 20 States.

(v) *The Unification and Simplification of Customs Nomenclature.*

The League's draft Standard Nomenclature and Classification, the outcome of recommendations by the World Economic Conference of 1927 as well as the Genoa Conference, was published in first draft in 1931 and in revised form in 1937. It has been applied in many countries as and when tariff revisions have taken place and is under study in others.

Among the questions falling under group (d) above, the removal of double taxation and also, perhaps, the standardisation of veterinary police measures, remain to be mentioned:

(vi) *Double Taxation.*

The work taken up in 1921 by the League in conjunction with the International Chamber of Commerce, led, in 1928, to the formulation of a series of model treaties, each dealing with a distinct group of taxes. Between 1929 and 1939, some hundred new bilateral agreements for the elimination of double taxation, based very largely on these League models, were concluded.

(vii) *Veterinary Police Measures.*

The World Economic Conferences of 1927 and 1933 recommended that a code of sanitary regulations should be established by international convention which would prevent the spread of animal and plant diseases without unnecessarily obstructing the trade in animal and agricultural products. The three Conventions concluded in Geneva in 1934 and 1935—relating to measures against contagious diseases of animals, to the transit of animals, meat and other animal products and to the import and export of certain animal products—went some way towards realising those objectives. But the Conventions were brought into force in only a very limited number of countries—most of them of minor importance in this trade.

2. Reasons for Success Achieved.

Now, what were the reasons why success was attained on the above questions—at any rate as regards (i) to (vi) and not on tariff questions and the more serious issues connected with commercial policy? Let us attempt to answer the first part of this question and leave the second till later. Most of these matters related to the legal conditions under which the individual trader operated. National laws on these questions had been gradually and independently evolved and substantial differences existed from country to country which were definitely disadvantageous to those engaged in international trade. There was, therefore, a strong support for this work of assimilation, and, more important, little opposition. Traders as a class wanted this work done, and other business interests either wanted it too or were not concerned. That was the first reason.

The second was the widespread desire of governments to restore some reason and order into international affairs. Administrations were ready to co-operate in promoting "freer and more equal trade" provided no "sacrifice of national interests"—and no substantial sacrifice of private vested interests—was involved. This desire was strong enough to induce governments to modify their own conduct up to a point, as is exemplified by the Convention on Customs Formalities. Governments were prepared to modify their administrative practices but not the principles of their commercial policy.

All the questions dealt with above had exercised national administrations and business circles before 1914. Several of them had been the subject of conferences which yielded little or no result; others, for lack of any prospect of international agreement, had not advanced beyond the stage of study. They were taken up after the War under conditions of intensified economic nationalism and of acute economic dislocation. That substantial progress was made must be ascribed in very large measure to a third factor, namely, the creation of a suitable international machinery for joint discussion, study and negotiation in the Economic and Financial Organization of the League. The existence of this international machinery served a further purpose. Several of the international agreements mentioned above were "elastic" and subject to numerous reservations. Their positive effect accordingly depended largely on the spirit in which they were applied. The goodwill between responsible officials, brought together periodically at League Conferences or Committee meetings, and the informal supervision exercised by the Economic Committee, were important elements in determining the real advance that was registered.

The success of the double taxation draft conventions cannot be explained by the above considerations alone. Not only was government policy involved, but also government receipts. It is worth noting that the hundred odd bilateral treaties for the reduction of double taxation were negotiated between 1929 and 1939—a period, that is, during which finance ministers in all countries were more than usually reluctant to make concessions.

The support of the business world for relief from taxation was, of course, assured. But the most important factor may well have been the procedure adopted. The Fiscal Committee of the League was world-wide in its composition; consisting as it did of revenue officials, it was assured of the co-operation of the fiscal authorities of all important countries, including the United States of America; and by framing conventions intended to be used as the basis, not of multilateral negotiations, but of such bilateral agreements as might be concluded, it achieved that measure of uniformity which was compatible with differences in national economic structures and financial practices and provided a standard to which countries could gradually conform.

Mention has been made, perhaps improperly, of the draft veterinary regulations—perhaps improperly, because it is doubtful whether this work can be classed as a success. But it is convenient to consider this case here to illustrate two points. The London Conference had recommended a general multilateral convention. That proved impossible. Why? Because the time for multilateral conventions had passed. After the failure of the London Conference, the breaking up of the world into more or less antagonistic if shifting currency groups and the gradual drift through quantitative restrictions on trade to autarky, the will to conclude such conventions even on questions of minor importance was sapped.

But it is not certain that this was the only cause, for these veterinary problems were very close to major issues of commercial policy. The improper application of regulations concerning contagious diseases or the proper application of obstructive regulations were one weapon of protection in the armoury of governments. In all important countries, some agricultural interests would oppose the surrender of these weapons.

Why, then, did governments recommend their abolition if they were not prepared to abolish them in fact? Here we return to the central problem regarding commercial policy as a whole in this period, a problem which requires to be considered in connection with issues more important than the diseases of plants and animals and the use of these maladies for purposes of protection.

CHAPTER III

COMMERCIAL POLICY PROPER, 1919-1929

1. Proposals and the Course of Policy.

It will be convenient to deal first with the vital problems of commercial policy in the first post-war decade only. After 1929, forces were set in motion which had previously exercised little or no influence and the nature of the problem was radically changed. For a few years after 1925, moreover, non-tariff impediments to trade were overshadowed by rising tariffs; after 1930, the tariff question was complicated by the emergence of new forms of trade regulation and finally overshadowed by them.

The early post-war Conferences aimed, as we have seen, at the following main objectives;

(a) the abolition of prohibitions and restrictions, exchange controls and excessive export duties on raw materials;

(b) the restoration of pre-war tariff practices—the suspension of fighting tariffs, the conclusion of long-term commercial treaties, non-discrimination and the extension of M.F.N., greater stability in tariff rates and classifications;

(c) the elimination of excessive duties and the general reduction of tariff levels.

Let us briefly recapitulate the main conclusions of Part I regarding the degree of success or failure attending those proposals.

(a) *Prohibitions, etc.*

Outside Europe and in several European countries, e.g. Great Britain, the Netherlands, Belgium and the Scandinavian countries, such restrictions had almost entirely disappeared by 1920. In other European countries, their removal was a slower and less continuous process; several countries which abolished their war-time measures of quantitative trade restrictions and exchange control soon after the Armistice felt obliged to re-impose them later; in Central and South Eastern Europe, where trade had practically ceased by the end of the World War and was only gradually resumed first on the basis of intergovernmental barter, then on that of general prohibitions modified by licence, it was not until the middle 'twenties that something approaching a regime of unrestricted trading was restored.

There remained, however, in many countries—and especially in Central and Eastern Europe—a hard core of prohibitions and quantitative restrictions and it was against this that the efforts of the Prohibitions Conferences of 1927-1929 were directed. An international Convention was concluded in 1927 under which the 29 Parties undertook, subject to various reservations, "to abolish within a period of six months all import and export prohibitions or restrictions and not thereafter to impose any such restrictions". A supplementary agreement for the removal of prohibitions and restrictions on exports of (and the limitation of export duties on) hides, skins and bones, was concluded and brought into force among the States principally concerned. But the main Convention—by far the most elaborate and delicately balanced multilateral commercial agreement ever concluded—finally failed, owing to the absence of one essential ratification—that of Poland, which considered that certain reservations made by Germany jeopardised her economic life. The Convention was in fact brought into force in 1930 for a short period by seven States, not including any from Central and Eastern Europe.

But even in that region, the process of whittling down prohibitions and restrictions continued, by and large, up to 1930 or 1931. It may therefore be said that in spite of the very limited direct results of intergovernmental action, there was no striking contrast between the recommendations of international conferences on this subject and the results achieved in the first post-war decade.

(b) *Tariff Practices.*

The instability which was a feature of post-war tariff regimes—as reflected in the surtaxes and "coefficients of increase" to meet currency depreciation which many governments were empowered to introduce and modify without reference to Parliament, as well as in frequent changes in schedules—became less marked after

1922 or 1923; but nothing approaching the pre-war tariff stability was ever regained, even after 1927. That failure was one aspect of the failure to rebuild the system of long-term treaties.

The commercial agreements concluded in the early 'twenties were few and, without exception, of short duration. From about 1925, and more especially in the years immediately following the World Economic Conference, treaty-making was speeded up—though serious gaps remained—and the treaties more frequently provided for the consolidation or reduction of duties. Although the numerous treaties concluded in 1927 and 1928 continued to be denouncable at short notice, denunciation became less frequent. The Franco-German Agreement of August 1927 seemed to have laid the basis for a stable system of commercial relationships. The consolidation movement was, however, arrested in 1928 and reversed in 1929.

The attempt to rebuild the commercial treaty system was closely bound up with the fortunes of the M.F.N. Clause. The re-establishment of the Clause as the basis of the commercial relationships between States was one of the few real successes of the first post-war decade in the sphere of commercial policy proper. The United States adopted the unconditional form of the Clause in 1922; Italy became its advocate in 1921, joining forces with the United Kingdom and other traditional upholders of the Clause, together with Germany and her ex-allies, to break down the opposition of France and Spain. France returned to the Clause in her agreement with Germany in 1927 and Spain adopted it in 1928.

The generalisation of the M.F.N. Clause was, however, not accompanied by any general extension of 'National treatment' to foreign traders and firms, as was the case before the war; and efforts, culminating in the International Conference on the Treatment of Foreigners in 1929, to secure the recognition of a body of liberal principles to be observed in this connection, met with little success. Nor did the Clause in fact go far towards meeting the problem of discrimination, which was effectively practised by means of tariff specifications so detailed that only the Parties to a bilateral negotiation were likely to benefit from the tariff reductions agreed upon. Anti-dumping and countervailing duties were further sources of alleged discrimination, but these factors declined in importance as the decade advanced.

The really fundamental issue in the efforts to restore pre-war tariff practices centered around the problem of tariff bargaining. 'Tarifs de combat' were a far more serious obstacle to trade than before the war owing to the increased margin allowed for bargaining and the hitherto almost unheard of practice of enforcing the inflated bargaining tariffs first and negotiating afterwards.

Such changes in methods reflected the increase in the intensity of tariff bargaining. Never had there been such general reluctance to grant the smallest concession without a more than compensatory counter-concession, never were concessions in tariff treaties so limited in number, small in degree and difficult to secure at any price.

On the whole, neither the methods of tariff bargaining nor the spirit in which it was conducted were substantially modified throughout the inter-war period, though, as mentioned in Part I[1], the German and French Governments officially stated that their treaty of August 1927 would have been much more difficult to conclude "if the Parties had not been able to rely upon the principles laid down by the World Economic Conference and to benefit by the atmosphere created by its discussions."

(c) *Tariff Levels.*

In the early post-war years in Europe, the level of duties was a preoccupation quite secondary to other forms of trade restriction and the tendency towards increased protectionism was in many cases concealed by currency depreciation which temporarily reduced the effective height of duties. But within a few years—and more especially after the stabilization of most of the European currencies—it became clear that Europe was following the road that had been taken by the United States in 1921 (emergency duties on agricultural products) and 1922 (Fordney-McCumber Tariff). The new tariffs worked out all over Europe were not only higher than their predecessors; they were also—as we have seen—far less frequently and less substantially reduced by negotiation. Indeed, there was a continuing tendency towards tariff increases, effected by means of successive partial revisions.

[1] Chapter V.

Up to about 1925, the main increases in tariffs referred to industrial products; after 1925, agricultural duties in Italy, Germany and France led the upward movement. For two years following the World Economic Conference, the general upward tendency was checked, though not arrested. Proposed increases in a few countries (France, Norway) were moderated and in a few others some actual reductions in duties were effected by bilateral treaties and by autonomous action (Czechoslovakia, Canada); but these reductions were outweighed by increases elsewhere, especially on agricultural products. From the middle of 1929, a wave of agricultural protectionism swept over Europe and the interlude during which the issue of greater world integration or greater national isolation had seemed to hang in the balance was past.

The storm centre of the high protectionist movement in Europe lay in the Danubian region. The Peace Treaties provided that Austria, Hungary, and Czechoslovakia might form a preferential customs 'bloc'. This remained a dead letter. Equally ineffective were the recommendations of the Supreme Economic Council, the Brussels Conference and the Portorose Conference and the protracted efforts of the Economic Committee which have been described in Part I.

2. Reasons for Success and Failure in regard to the abolition of prohibitions and restrictions, exchange controls, etc.

The bulk of the war-time prohibitions and restrictions on imports and exports were removed in the United States, the United Kingdom and certain other countries shortly after the Armistice, because there was a clamour for their removal. In other countries, as we have seen, they were removed or gradually whittled down in the course of the following 10 years. The efficient cause of this demobilization of quantitative restrictions lay in the fact that most governments, reflecting public opinion, did not desire to maintain quantitative control of trade as a permanent system. They postulated that the pre-war system was the normal and natural system and their opinion was reinforced by the declarations of International Conferences and Committees. Exchange control, widely enforced in the post-armistice years by European countries in a weak financial position, was likewise generally condemned. The restoration of financial stability in Europe—towards which the League of Nations made a noteworthy contribution—enabled one country after another to decontrol foreign exchange operations.

Why was the demobilization of quantitative restrictions a slow and uneven process in many countries?

In many parts of Europe, scarcity of raw materials and foodstuffs made governments reluctant to abandon export controls in the immediate post-war years, while currency fluctuations rendered the abolition of import controls difficult. Countries with depreciating or weak currencies maintained, and in several cases (e.g. France in 1922, Poland in 1925) re-imposed import controls in order to strengthen their balance of payments. They believed that this could be more easily done by checking imports than by allowing the depreciation of currency to stimulate exports, especially as currency depreciation was liable to become cumulative and "self-inflammatory" owing to its effects on confidence. Moreover, they wished to avoid the rise in domestic prices consequent upon depreciation. Various countries with stable or relatively stable currencies maintained or re-imposed controls to protect their own industries against "exchange-dumping". In every European country, the United Kingdom not excepted, certain prohibitions were maintained in order to foster industry or conserve resources considered necessary for national security; and in certain cases, such controls were used as an instrument of commercial warfare aimed at weakening the position of potential enemies.

It must not be forgotten that actual fighting continued in parts of Europe until 1922 and that it was only after 1925 that the danger of fresh conflicts receded into the background. The Locarno Agreements of October 1925 opened a more hopeful prospect for Western European relationships; but in the same month, war between Greece and Bulgaria was only averted by a hair's breadth.

The passing of the conditions of scarcity, the restoration of political and monetary stability and the introduction, in one country after another, of new and higher Customs tariffs rendered possible the gradual removal of the bulk of prohibitions and restrictions on the European continent. In the restoration of stability, the financial reconstruction of Austria marks an important date. The Hungarian reconstruction scheme likewise contributed. At the Geneva Customs Conference of 1923, the representative of Hungary stated that his Government "might be obliged to maintain the system of prohibitions owing to economic and currency reasons". Early the following year, in accordance with a recommendation of the League Financial Committee, Hungary abolished her whole system of export prohibitions and licences and, with the introduction of the new tariff later in the same year, also abolished her import prohibitions lists. More important still for its effect on European commercial policies was the stabilization of the mark in 1924; the German import licence system was, moreover, abolished in 1925 when Germany regained her tariff freedom.

But why was the process of demobilising prohibitions never completed? The clue may be found in a sentence from the resolution of the League Assembly of 1924 governing the League's efforts to secure an international agreement on the subject. The Assembly decided that "provisions relating to the vital interests of States shall not be affected". The interpretation given to this phrase 'vital interests' was largely determined by two fundamental factors in the political situation at that time: doubts about the maintenance of peace and mutual mistrust. Governments were prepared to advocate collectively policies which implied trust to some limited extent. But when each government severally was faced with the need for formulating its own individual policy and taking sovereign action, it felt unable to act on the assumption that the political risks of which it felt conscious did not exist. Hence, at no stage of the negotiations between 1927 and 1929 were the majority of European Governments prepared to forego their control over the export of certain products essential for their own national defense and important for the purpose of bargaining with other governments.[1] Nor were the majority of governments prepared to guarantee that the removal of import prohibitions would not be neutralized by prohibitive tariffs, by arbitrary veterinary regulations or other weapons of "indirect protectionism". They were not prepared altogether to abandon their power of direct control over the

[1] Reservations regarding export prohibitions on scrap metal were maintained by 10 continental governments, including all the principal metal producers.

most important lines of trade with each and every country or to renounce completely the most convenient instruments for exercising that control.

In addition to the political causes mentioned above, there were profound economic causes of the unwillingness of governments to accept, in their commercial policies, the logic of the resolutions to which they had subscribed. These economic causes may be more conveniently considered in connection with tariffs, which gradually replaced prohibitions to a very large extent as an instrument of protection.

The 1927 Convention, for all the reservations maintained by many of its signatories, would have involved the removal of a very wide range of prohibitions and it must not be forgotten that this Convention nearly succeeded. The whole course of the multilateral negotiations for the purpose of bringing the Convention into force would have been facilitated and the specific hitch which was the immediate cause of the breakdown—namely, the commercial war between Germany and Poland—possibly avoided had the hopes of general tariff reductions entertained in 1927 been, even in small measure, fulfilled. General agreement regarding both the partial removal of prohibitions and some reduction or at least stabilization of tariffs might conceivably have been achieved had inter-governmental negotiations for the latter purpose been begun in 1927 instead of 1930.

3. Reasons for General Failure—and Specific Successes—of Proposals aiming at the Restoration of "normal" Tariff Practices and the Commercial Treaty System.

The slow and very incomplete response to the recommendations of Conferences that pre-war tariff practices and tariff relationships should be restored was due partly to special and temporary, partly to general and more permanent, causes.

Long-term treaties and the consolidation of rates were impossible when

(a) specific rates were employed, as in Europe, and the future of most currencies was highly speculative;

(b) new States, and States which had been enlarged or truncated, did not know how their economy would work out;

(c) new tariffs were almost everywhere in preparation;

(d) there were grave political risks and uncertainties;

(e) many governments were faced with pressing social problems—unemployment or low standards of living among certain economic groups—the solution of which might require, *inter alia,* some manipulation of tariff rates;

(f) prices on world markets—as distinct from prices expressed in fluctuating national currencies—were violently oscillating.

The same factors rendered the acute instability of rates and classifications in the early post-war years inevitable. It should be added that the paucity of even short-term agreements in the five or six years following the Armistice was largely due to the attempts vainly made by France in this period to withhold M.F.N. treatment.

By the time the World Economic Conference met in 1927, this last factor as well as (a), (b) and (c) had ceased to operate. Factor (d) was less prominent but, like (e) and (f), still of importance. There remained a condition of uncertainty, political as well as economic, which made governments hesitate to take the risk of binding themselves for more than a very short more than possible that governments would have been prepared to enter into longer term commitments. Under the leadership of Mr. Hull, many governments actually did so after 1934, despite the effects of the depression.

The vicissitudes of the M.F.N. clause can be broadly explained in a few words. All countries feel a certain reluctance to extend to third parties "concessions" which are made as a result of a bilateral bargain. This feeling is likely to be enhanced (1) at a time of international tension and ill-feeling, (2) if one or more of the potential beneficiaries under the operation of the clause has raised insuperable barriers against the exports of the country granting the tariff reduction, and (3) if one or more of those beneficiaries employs not only non-negotiable but high rates of duty. The tension in Europe and the tariff policy of the United States (as well as the introduction of prohibition in that country, damaging the wine-producing countries) explain the attitude towards M.F.N. and the effective discrimination practised by other means in a large number of European countries in this period.

Nevertheless, most of these countries—including the small countries in a weak bargaining position—found that on balance their interests lay in a general adoption of the clause. A guarantee of equality of treatment for their exports in foreign markets was indispensable even if of limited value, and the only hope of obtaining it lay in guaranteeing equality in their own markets. A general reduction in trade barriers was also desired and it was assumed—at any rate in the early 'twenties—that the most hopeful method of achieving this lay in creating a network of treaties containing the clause. France and Spain ultimately adopted M.F.N. after their experience of the difficulties of negotiating on a basis of pure reciprocity.

If the recommendations of the Conferences regarding M.F.N. were formally fulfilled, effective discrimination by methods which did not violate the letter of the clause continued to be widely practised. The art of specifying individual positions in the tariff was developed to an extent that frequently rendered tariff concessions of little or no value to third parties. For other reasons, too, the clause itself became increasingly discredited. It was felt that instead of facilitating, the clause tended to obstruct the reduction of tariffs by means of bilateral or multilateral agreement, owing to the reluctance of governments to make concessions which would be generalized by it. This was the result, mainly, of two causes: first, the refusal of the United States to reduce its own very high tariff by negotiation while claiming to benefit from any tariff reduction negotiated between European countries; secondly, the opposition of certain countries—notably the United Kingdom, the United States and the British Dominions—to derogations from strict M.F.N. practice permitting the conclusion of regional or similar agreements for tariff reduction, the benefits of which would be limited to the participants. This second point was important—for when it became apparent that multilateral negotiations on an almost universal scale were not likely to succeed, certain groups, especially the Oslo group of countries, were anxious to achieve the general objects advocated in international conference within a more restricted area. Had general support of such endeavours been forthcoming, it is possible that the practice of reduction through group agreements might have spread and the groups gradually have extended their size. Such a procedure might have been less favourable to world trade as a whole than the rapid conclusion between a large number of countries of bilateral treaties embracing the M.F.N. clause, but not less favourable than the failure to grant concessions owing to the quasi-universal implications of M.F.N.

The causes of the persistence of tariff warfare are extremely complex. Political tensions provide a partial explanation; so does the accident that at the time that many of the new European tariffs were published, negotiations were impossible and the tariffs had consequently to be enforced before they could be reduced by agreement; so, again, does the fact that, if used by one, fighting tariffs tend to be used by all, in self-defence.

But all this does not really explain why trade was consistently regarded as a form of warfare, as a vast game of beggar-my-neighbour, rather than as a co-operative activity from the extension of which all stood to benefit. The latter was the premise on which the post-war conferences based their recommendations —a premise accepted by all in theory but repudiated by almost all in practice. It was repudiated in practice because, as the issue presented itself on one occasion after another, it seemed only too evident that a Government that did not use its bargaining power would always come off second-best. In the inter-war period, States were taking over the competitive struggle from individual manufacturers and traders, between whom competition was being attenuated by the rapid growth of trusts and cartels and the extension of Government control in various forms.

4. Causes of Failure to Achieve a Reduction in Tariff Levels.

(i) *Causes of the Post-war rise in Tariff levels.*

To understand the causes of the rise in tariffs in Europe, it must be remembered that in the early post-armistice days, tariffs scarcely counted and trade was controlled by quantitative restrictions. These restrictions, together with the currency chaos, meant or produced great disequilibrium in national price levels, and governments were afraid of jumping into the cold water of an extremely tumultuous world price ocean. They therefore tended not to jump but to impose tariffs more or less equivalent to prohibitions, with the intention of reducing them through negotiations. This, indeed, was the course recommended by the Genoa Conference.

Many of these countries were new or had acquired new or lost old territories and had to create or reorganize their administrative systems. They were afraid to take risks. They had to nurture new populations. They did not know how the industrial organization of their territories was going to hang together, and felt incapable of elaborating a carefully thought-out commercial policy. The safest thing to do seemed to be to impose high tariffs all around and protect everybody.

They were ignorant of world markets and those markets themselves were disorganized. Their old trade connections had been severed and to many of the small new states the cost of creating an export market, of appointing consuls, sending salesmen, etc., was prohibitive. Nor had they the capital necessary to reorganize their industrial life. Inevitably, their primary concern was to secure at least the home market to their existing industries. Inevitably, their attitude towards foreign trade was defensive.

So, for somewhat different reasons, was the attitude of the majority of the larger European countries. These countries, owing to changes in the economic structure of the world, had in many cases permanently lost foreign markets and certain industries which previously, as dynamic exporters, had upheld free trade principles, now demanded protection. Governments were under pressure to protect war-expanded industries in order to keep in employment some part of the plant and labour which had become excessive.

Economic re-adjustment, particularly in the older industrial countries, was rendered extremely difficult by the increased rigidity of their economic structures, a rigidity arising not only from the normal conditions of large-scale industrial economies—heavy capital investment and a high degree of labour specialization—but also from the resistance of organized labour to wage reductions. Readjustment, again, was discouraged by the uncertain future of world markets. There was thus every inducement to buttress up existing industries by all appropriate means, including tariff protection. Where new and more promising lines of production were attempted, tariff protection was likewise required.

In countries with stable or relatively stable currencies, currency depreciations elsewhere reinforced the demands for protection by industries threatened by "exchange-dumping". German dumping had similar effects. Either straight tariff increases or special "anti-dumping" duties were introduced in one country after another to meet such "abnormal" foreign competition.

In the primary-producing countries outside Europe, the process of industrialization had been accelerated during the war owing to the curtailment of supplies of manufactures from the old industrial countries. Tariffs were raised—in some countries, for example Australia, to very high levels—for the purpose of safeguarding the existence of the newly established industries against the revival of foreign competition. In other words, the war had created a high measure of protection all around and governments were afraid of undergoing the deflationary process incidental to its reduction.

The immediate causes of the steep rise in the United States tariff in 1921 and 1922 are set out by the United States Tariff Commission in the following words:[1] "After the World War, there arose a demand for tariff revision which was intensified by currency depreciation in European countries, particularly in Germany. Industries which had grown up or expanded during the war were fearful of the increased foreign competition, and a severe decline in agricultural prices in 1920 caused the farmers also to advocate increases in tariff rates. In response to this demand, the Congress enacted the Emergency Tariff of 1921 and later the Tariff Act of 1922. These acts raised the general level of tariff rates to a position approximating to that which prevailed prior to 1913."

In fact, the fears of foreign competition entertained by the American producers—agriculturists as well as manufacturers—would scarcely have withstood the test of objective analysis. The real explanation of post-war tariff policy in the United States lay in the widespread belief in the desirability of high tariffs as such.

[1] U. S. Tariff Commission. Trade Agreement between the United States and the United Kingdom, Washington, 1938. Vol. I, p. 30.

This point will be dealt with more fully in connection with the further strengthening of United States tariff protection in 1930.[1]

One effect of United States tariff policy on European policies, namely the reluctance to grant tariff reductions from which the United States would benefit under M.F.N., has already been noted. Another, of still greater importance, was the development of a position of highly unstable equilibrium under which the constant deficit in the payments position of European debtor countries *vis-à-vis* the United States was covered, and could only be covered, by a flow of United States capital to Europe on a vast scale. This precarious situation broke down when the net outward movement of United States capital ceased in the middle of 1928.[2] Thenceforward, European countries were under increasingly severe pressure to curtail imports in order to adjust their foreign payments position.

While this specific factor did not make itself seriously felt until 1929, pressure on balances of payments had exercised an influence several years earlier on the new tariffs of weak-currency countries in Europe. This pressure on national currencies provides one explanation of the high duties on luxury and unessential imports invariably found in Central and Eastern Europe; another factor was the need for revenue. Of all taxes, customs duties are the easiest to impose and to collect. The Ministries of Finance of those impoverished countries—in which, on the one hand, indirect taxation was responsible for a high proportion of national revenue and, on the other, military preparations, subsidies and social services, as well as debt obligations, called for very heavy expenditures—were insistent that the duties on luxury articles should be high. High duties on such goods also reflected a widespread and natural desire in countries lacking capital to endeavour to prevent luxury expenditure and promote saving.

Let us return to consider the forces and the arguments favouring increased protection for national industry. We have mentioned the grounds on which industries claimed such increased protection and some of the reasons why those demands were met. But there were others of no less importance. It was considered desirable, in almost every country, to build up certain lines of production of importance for national defence, and to assist that

[1] See page 126.
[2] There was a short temporary revival of U. S. Capital exports to Europe in 1930.

development by preventing foreign competition. Even the United Kingdom protected "key industries"; but it was on the European Continent that the memories of the blockade were most vivid and the lessons of that war-time experience most fully drawn. The industrial States fostered their agriculture, the agricultural States their industry, in pursuit of a greater measure of self-sufficiency and security.

In the new, mainly agricultural, States, there were, it is true, special politico-strategic reasons for rapid industrialization. Each of those States desired to consolidate its hardly won political independence by economic independence; each was suspicious of one or more of its neighbours and conscious of the precariousness of its own position; each knew that military power depended in large measure on national industrial production. But the main reasons leading to policies of industrialization in the agricultural countries were undoubtedly social and economic. Throughout the greater part of the period under consideration, many of those countries had a surplus agricultural population. Most of them, as well as their larger neighbours with a more mixed economy, had sent a steady stream of surplus labour overseas before the war and were seriously affected by the new restrictions on immigration, more especially in the United States. The agricultural unemployed could only be absorbed by industry; industry had therefore to be built up and for that purpose tariff protection seemed to be indispensable. Protection was made general in many cases because the plans for industrialization were amorphous.

The position of agricultural countries became more difficult and the need to protect industry more pressing when the great industrial countries increased their agricultural protection. The movement was ushered in by the "Battle of Wheat" in Italy and the new agricultural duties in Germany in 1925. Like the industrialization movement which we have just discussed, it was conditioned partly by the wish to utilize to the full the resources available at home when emigration was checked and export markets difficult to penetrate, partly by the desire for self-sufficiency, partly by other considerations, social as well as economic. It was held to be desirable, in terms of social stability, to maintain a prosperous and numerous peasantry, to check the long-continued drift to the towns. As a result, in part, of the expansion of overseas production which the war had stimulated, a wide margin had developed between the trends in agricultural and industrial prices (the "scissors"); farmers had a grievance and were sufficiently powerful politically to enforce acceptance of their demands.

In Germany and in England, there was a deep-lying (though still but half recognised) economic reason for protecting and fostering agriculture. Both these great industrial States had reached a stage in economic evolution at which a large proportion of their exports took the form of capital goods, a form of trade peculiarly sensitive to economic fluctuations. When this stage is reached, insurance against fluctuations may become more important than maximum income in the optimum year. That insurance can be effected by diverting productive activities to agriculture and to industrial consumption goods. It was so effected in both countries.

Thus the highly industrialized countries at the one end of the scale and agricultural countries at the other endeavoured to secure a better balance by developing miscellaneous consumption goods industries—while in one agriculture waxed and in the other it waned. Between these two extremes, lay the truncated industrial States, Czechoslovakia and Austria, in which the labour mobility factor took a special form. These States protected industry to secure at least their home market, and agriculture, in part for rural-political reasons, in part in the hope of re-absorbing some of the surplus industrial population. Had they regained their old markets in Danubia, that surplus would not have existed. Two alternative policies lay before them—the one which they adopted (and possibly carried too far), the other that of constructing customs unions or some form of preferential customs regime with the other succession States. A customs union would have saved their industry and lessened their need for agricultural protection. But for it to have been economically sound (or acceptable to the other States), labour mobility would have been indispensable. The surplus agricultural labour from all parts of the customs union would have had to be granted the right to move to the industrial centres anywhere within its frontiers. That solution was incompatible with young nationalism. Partly for that reason, partly because of the conflicting interests of other Powers, it was never pressed by conferences. Nor was the establishment of a preferential regime seriously advocated, owing to the rigid M.F.N. ideas that were current, particularly in Anglo-Saxon countries. As we have seen in Part I, Chapter IV, Austria almost succeeded in negotiating preferential arrangements with Czechoslovakia and Italy in 1925; but the attempt failed owing to Italian insistence that all Czechoslovak concessions to Austria should be extended to Italian products.

Between 1922 and 1929 the United States enjoyed a period of great and increasing prosperity. In this prosperity agriculture shared, though it benefited less than industry. Foreign competition was scarcely a serious factor in any section of economic activity. Yet before the collapse of 1929, even before the end of 1928, it was clear that the United States tariff was going to be raised above the formidable level of 1922.

The explanation has frequently been given in terms of political pressure exercised first by the farming and later by the industrial groups—the sort of pressure which has been important in all countries and constitutes indeed a major problem of government.[1] But this explanation is insufficient, for it begs the question why those sectional groups thought that they would benefit from still higher tariffs all round. Nor is it sufficient to point out that those who knew they would benefit pressed for higher protection while the others were content to follow their lead, for it would still be necessary to explain that amenability. The real explanation of the United States tariff of 1930, as well as that of 1922, would seem to lie in the existence of a deep suspicion of import trade as an element of disturbance and depression and a belief in the beneficial effects of economic isolation, a belief based on the experience of the preceding half century or more, during which the United States had grown to be the greatest and most prosperous industrial country in the world under a system of high tariffs. The Fordney-McCumber Tariff was a development of that trend, which persisted in spite of the fundamentally changed position of the United States when she ceased to be a debtor country and became the world's greatest creditor.

[1] The present commercial policies of the world constitute a kind of bastard socialism, conceived not in the public interest but pressed upon Governments by strong sectional organizations." Sir Arthur Salter: *The Framework of an Ordered Society,* Cambridge, 1933, p. 17.

(ii) *Now near was Europe to accepting conference doctrine in 1927-1929?*

For some two years after the meeting of the World Economic Conference, the rise in tariffs, which had hitherto been both steep and continuous, was checked, though not entirely arrested. The hopes of gradual tariff demobilization aroused by the Conference were wrecked in 1929. It is important, however, to consider how near the world was to accepting the doctrine of the Conference in 1927-29. Was the failure due to accidental causes? How far did errors and omissions in procedure contribute? Was it the inevitable result of certain of the factors considered above?

At the Conference, it was realized that a general demobilization of tariffs would at best be a slow process. Any substantial reduction in tariffs, to which, by and large, national industrial structures had adapted themselves, would have involved particular sacrifices and general deflationary consequences which no government could lightly accept. Little immediate result was therefore expected from autonomous action. States were recommended to begin by removing barriers "that gravely hamper trade" and had been imposed "to counteract the effect of disturbances arising out of the war".

Greater hopes were placed in bilateral action for the conclusion of arrangements under which, on balance, both parties should benefit. But here, too, it was clear that progress would be slow and difficult owing not only to the high tariff of the United States and the opposition to European preferential agreements, but also to the non-negotiable character of the tariffs of some of the principal trading countries of the world. The last factor was of considerable importance. It was not so much the level of the United States tariff as the fact that it could not be reduced by negotiation that made countries with negotiable tariffs reluctant to enter into agreements among themselves for tariff reductions, since such reductions would constitute a non-compensated concession to the world's greatest exporter. The United Kingdom and the Netherlands, the two countries which had not introduced a high protective system and were particularly interested in general tariff demobilization, were likewise unable to take part in negotiations for reciprocal tariff reductions. Since their duties were at that time not subject to reduction by agreement, they were unable to offer tariff concessions against the concessions they sought to obtain from others.

Various delegations to the World Economic Conference desired the Conference to enter a forthright recommendation in favour of negotiable tariffs and the matter was subsequently considered at length by the Economic Committee. But, whatever advantages negotiable tariffs offered for the purpose of bilateral or multilateral agreements, it was impossible to disregard the fact that the principal European countries with the non-negotiable system were those whose tariffs were the lowest. It would have been patently ridiculous to denounce the low- (or no-) tariff countries for their abstention from tariff bargaining. The position was, of course, changed in the early 30's, when those countries abandoned their traditional free-trade or quasi free-trade position.

The relatively small results achieved by autonomous and bilateral action in 1927 and 1928 do not by themselves afford any evidence that further results might not have been gradually achieved had the depression not occurred and had United States tariff policy followed a different course. That the manner in which the problem of collective action was approached was open to question is argued in Chapter V below; but it is possible that more could have been achieved in those two years had the idea of collective action been taken up with greater enthusiasm. During the whole of that period, indeed, no direct negotiations between Governments for the purpose of collective tariff agreements were attempted and the Economic Committee, which had been instructed by the League Council to explore the possibilities of agreement, found itself thwarted at every point by technical difficulties and conflicts of private interest—factors which, had Governments been generally and genuinely determined to secure such agreement, might well have been overcome. The Committee reported in March 1928 that there appeared to be no prospect of achieving general tariff reduction by means of standard percentage reductions or the fixing of maximum scales. As with national armaments some years later, so with national tariffs, it proved impossible to find an acceptable general principle on which reductions by different States, with widely varying systems and degrees of protection, might be based. The Committee then proposed to make a start with groups of commodities—semi-manufactures, such as cement and aluminium—in regard to which the prospects of general agreed tariff reduction seemed least dim. After more than a year of negotiations with the representatives of the national industries concerned, it reported that no progress could be made. The main technical reasons for this failure appear to have been as follows: a) each national tariff being adapted—in theory at least—to the national economic structure, action restricted to one group of products tended to upset the balance of the tariff as a whole; b) since a reduction in the protection afforded to semi-manufactures would constitute an increase in the protection afforded to the finished goods made from them, it was difficult to confine action to the first class of commodities; and c) the essence of international trade being the exchange of different kinds of goods, it was far from easy "to find within a single group of commodities that compensatory factor, which ultimately underlies every commercial agreement".[1]

It was not until the autumn of 1929, when the post-Conference lull was over and the danger of a renewal of active tariff warfare acute, that the governments decided to attempt direct collective negotiations for a general reduction of tariffs. But by the time the Tariff Truce Conference met in February 1930, the opportunity had passed. Had the opportunity been seized in 1927 or even in 1928 when the fate of the Prohibitions Convention hung in the balance, it is possible that a tariff truce might have been concluded and some tariff reductions agreed between countries most directly affected by the prevailing tendencies, which might have been followed by bilateral and group negotiations for more permanent stabilization and further reductions. The fact that the necessary stimulus to intergovernmental action was lacking in those fateful years reflects the fear that each country felt when faced by the practical implications of applying the policies all or almost all advocated. For the application of those policies would inevitably have involved an initial shock, a reduction in prices, unemployment in some industries, not offset at once, perhaps, by increasing employment in others, the protests of those adversely affected and the political dangers of these protests. It also reflects the absence of any clear popular conception, even in the countries that were leaders in the movement, of the ultimate

[1] Report of the Economic Consultative Committee: Second Session, Geneva, 1929. League of Nations document C.192.M.73. 1929. II.

goal of freer trade policies and the consequent failure of the World Economic Conference to evoke strong popular support for its recommendations. The idea of freer trade was not effectively linked to that of increased welfare in the public mind, nor the idea of greater economic isolation with that of diminished welfare and increasing dangers of international friction.

Had a greater measure of popular support been forthcoming, had Governments acted with greater resolution, had opportunities been fully exploited, some advance in the direction of tariff demobilization might clearly have been expected. But it is important to bear in mind the limitations to which any such move would have been subject. Fundamental problems would have remained and deep-lying tendencies and forces continued to operate which make it scarcely conceivable that the broad lines—as distinct from the accidental features—of policy pursued in most European countries could have been very different from what they were. To make this point clear it may be well to pick up again the thread of the argument contained in the preceding section.

Some of the factors contributing to higher tariffs which we have indicated were temporary phenomena arising out of the Great War; they made an early post-war rise in tariffs inevitable but they had largely worked themselves out by the end of our period. Some, of more enduring influence, sprang from what it is now generally agreed were errors in human judgment and policy. Amongst such may be ranged the whole familiar catena of mistakes from the endeavour of certain governments to protect an incompetent or unfavourably situated industry at one end of the scale to the two major volitional causes of the distortion of trade and commercial policy in the period; the endeavour to extract large-scale reparations from Germany while restricting imports from that country and the failure of the United States to adapt her commercial policy to the fundamental change in her balance of payments. The pressure by the debtors to meet their obligations led to an unstable balance which ultimately collapsed and the general feeling of economic insecurity was one of the most pervasive causes both of the desire of governments to isolate their countries behind high tariffs and of their reluctance to move out of that isolation and incur the hazards of a world economy.

But the really fundamental factors were those arising out of the stage of economic evolution reached and the precarious economic situation of many European countries, and the impact on those basic economic conditions of the ferment of nationalism and the instability of the post-war world. These phenomena were interdependent; the course of policies was determined by a combination of the forces they produced. But their respective influences can be distinguished.

We have noted with what circumspection and with what scant results autonomous tariff reduction was recommended. This was due to the fact that, while each country believed that the tariffs imposed by others were damaging to it, it believed that its own were an asset not readily, certainly not gratuitously, to be sacrificed. There was, that is, no general belief that each extension of the division of labour would bring about an economy in production and hence an increase in welfare, or that each country must gain, even if the degree of gain varied, from a general reduction in trade barriers.

The economy in the more highly industrialized States had become so rigid that the advantages of lower tariffs were seriously questioned. When the factors of production could be shifted with relative ease from one occupation to another and full employment of resources might reasonably be expected, a lowering of tariffs should, it was argued, lead to an international specialization from which all would benefit, without creating too much disturbance in the process. But in the post-war world, full employment of resources was quite generally not attained in industrial states. Labour had become highly specialized and immobile; wage and price adjustments were extremely difficult to effect. The lowering of tariffs would have involved an inrush of foreign goods, forcing down certain prices in a highly rigid productive and price structure, and increasing unemployment in certain industries without any manifest certainty of increasing employment elsewhere.

In the face of this situation, which was more generally felt in the bones of the politician and the business man than expounded by the pen of the economist (though gradually it was quite fully expounded), the recommendations of the various conferences we have considered appear at first sight paradoxical. But in fact the paradox may have been more apparent than real. The lesson to be drawn is rather that the possibility of achieving tariff reductions at any moment was dependent on the phase of the trade cycle reached at that moment, than that no reduction was possible or desirable. No reduction could be attained save under conditions of general prosperity, relatively full employment and, preferably, rising prices. The date for the 1927 Conference was thus well chosen, though the slump came too quickly.

But the influence of the trade cycle on commercial policy was more profound and more positive than this. It did not simply determine the timing of action, it directly affected the attitude of the business world and of Governments to the whole problem of foreign trade. This point is one which will need further consideration in connection with the policies pursued after 1929, but it requires to be stated briefly here. As observed above, the richer industrial States had reached a stage of economic development and of wealth at which consumers' demand had become more erratic, more susceptible to sudden contraction, than in areas and periods in which a very large proportion of demand consisted of the bare necessities of existence. Throughout the whole inter-war period Governments were becoming more conscious of the risks inherent in this unstable demand, the risks of depressions and unemployment, and of the obligations which those risks imposed on them. With this growing sense of responsibility developed the fear that, if the economy of a country were largely dependent on uncontrollable foreign supplies and demands, the government's power to influence economic activity, to avoid or overcome a depression, would prove inadequate.

This factor was perhaps not of major importance during the 'twenties; it became of dominant importance after 1930; but it resulted directly from secular changes in economic and demographic structure, certain of which had been greatly accelerated by the war of 1914-1918. By the later 'thirties, a stage had been reached in the whole process of economic evolution at which it was becoming obvious that, were Governments only willing to cooperate, the solution to these difficulties lay not in isolation and contraction, but in joint efforts to overcome the trade cycle itself. Indeed a Delegation of the League of Nations appointed to report on this subject was in the middle of its labours at the outbreak of the present war. In reviewing the development of policy during this period, it is important to remember that the war itself broke off the work in hand.

While the highly industrial and richer States had reached a stage of economic development which rendered them peculiarly sensitive to depressions, many agricultural States were eager to develop their industry both in order to absorb surplus agricultural population and as an insurance against the risk of violent changes in the prices of their agricultural exports and in their balances of payments. It was inevitable that they should demand a high degree of protection for their new industries and find it difficult to reduce that protection later. It is not so obvious why they should have been unwilling to reduce duties on the wide range of industrial articles which they did not produce and had no immediate prospect of producing. The purpose of the duties on such goods was threefold: to produce revenue, to encourage the establishment of foreign industries within the country and to restrict the volume of non-essential imports in order to safeguard the national balance of payments and currency. These countries were poor, they were greatly in need of foreign capital, they were apprehensive of any action that might compromise their currencies or render them unable to meet their heavy foreign obligations. How could they be expected to apply the recommendations of the 1927 Conference until and unless those problems were at least in the way to finding a solution? Nor would the application of the Conference recommendations by the industrial countries have greatly assisted them, for agrarian protectionism was only in its early stages in 1927-1929 and the tariffs attacked by the Conference were the industrial tariffs by which the agricultural countries were, as exporters, only indirectly affected.

The problem constituted by the multiplicity of small and poor economic units in Central and Eastern Europe, heavily indebted to the Western World, was extremely complex and purely economic measures could only have made a partial contribution to its solution. Among such economic measures, however, the primary need was for a constructive plan to facilitate the development of their industries and for help in the execution of that plan. Since no action along these lines was initiated, it is understandable that the agricultural countries were unwilling to take the risks involved in any liberalization of their tariff policies.

So far, we have discussed the instability and insecurity of the post-war world mainly in terms of internal economic and social conditions; but the effects of external elements of insecurity on commercial policies were no less fateful. The extent to which the international commercial relationships existing before the first World War depended upon confidence in political stability, in the stability of foreign currencies and in the contractual honesty of States is perhaps insufficiently appreciated. Such conditions provided the framework essential to long-term commercial agreements and stable tariff policies. That framework, shattered by the war, was never fully restored. It is true that currencies were gradually stabilized and the memories of the Russian debt repudiation and the indirect defaults resulting from the depreciation of currencies partly forgotten by the later 20's. It is true that the years immediately following the World Economic Conference were the heyday of international political co-operation in the inter-war period; they were also the heyday of international economic co-operation. But one must not overestimate the extent of the return of confidence, especially in the political world. Reporting in 1931, the Sub-Committee of Economic Experts set up by the Commission of Enquiry for European Union expressed the opinion that "the economic development of which Europe stands so much in need is dependent upon an assurance of lasting peace; in the absence of this assurance, the nations are not content to become dependent upon one another for food, raw materials, or the basic products of industry".[1]

That chronic lack of confidence in permanent peace in Europe was really of fundamental importance. It was fundamental because European Governments inevitably tended to approach the problem of commercial policy primarily from the angle of national defence and national power; if they endeavoured to enhance the economic welfare of their peoples, to find solutions for economic and social problems, they sought to combine these ends with the overriding political end and to refrain from policies incompatible with the latter; inevitably, their commercial relationships with other countries, and more especially those directly feared, were imbued with the spirit of conflict rather than of co-operation.

[1] League of Nations document C.510.M.125. 1931. VII.

Accentuating the instability and insecurity which we have discussed, and in turn aggravated by them, nationalism was a force consistently resisting the forces making for greater world integration. In the violent forms which it assumed in certain countries of Central and Eastern Europe, it was the product of the Great War, the result of the enhanced sense of national unity and of the xenophobia aroused in the gigantic struggle of peoples and nationalities, the result of the history preceding the liberation of subject peoples.

CHAPTER IV

COMMERCIAL POLICY, 1930-1939

1. Summary of Proposals and the Course of Policy.

The evolution of commercial policy in the inter-war period falls into two phases of almost equal duration. From 1920 to 1929, in spite of an almost constant rise in tariff barriers, the general trend of policy was, as we have seen, towards a return to something like the pattern of pre-war commercial relationships; from 1930 to 1939, in spite of the momentous change in United States policy after 1934, in spite, too, of the temporary relaxation of restrictions in many countries, as post-depression recovery reached its zenith, the general trend was set with increasing force towards greater national economic isolation and new forms of inter-State economic relationships.

The prospect, gradually confirmed in the course of the year 1929, of a further strengthening of protection in the United States on the one hand, and the deepening of the economic depression in the primary producing countries and its spread to the United States and other industrial countries, on the other, marked the turning point. The immediate effect of the first factor on policies elsewhere was very marked; and when the Hawley-Smoot tariff finally passed into law in June 1930, numerous countries promptly raised their tariffs. But its direct effect on the course of world policy in the years that followed became of secondary importance compared with its indirect effect in deepening the world economic depression, each phase and aspect of which brought its own baleful consequences.

The characteristic developments in commercial policy under the stress of the depression may be very briefly recapitulated:

(i) The collapse of markets and the fall of prices led each country to endeavour to protect its price structure and to maintain, as far as it could, both the level of domestic employment and the stability of its currency by keeping out foreign goods and seizing for its own exports the largest possible share of the dwindling foreign market. Recourse was had almost everywhere to the classical method of economic defence, namely the raising of tariffs.

(ii) The financial crisis of the summer of 1931, involving the breakdown of the structure of multilateral settlements and accordingly an increased pressure on the balances of payments of many countries, was followed by currency depreciation in many countries and a welter of new and more formidable trade restrictions.

New tariffs were introduced (for example, in the United Kingdom) and existing tariffs raised, and other forms of restriction, exchange control, quotas, etc., made their appearance and soon came to overshadow tariffs as obstacles to trade. The speed with which this movement spread to almost all countries of the world is explained by the intricate manner in which the active and passive trade balances of each country depend upon one another and dovetail into those of other countries.

(iii) Most of the countries which abandoned the gold standard or further depreciated their currencies following the lead of the United Kingdom—the British Dominions, the Scandinavian countries and numerous other countries in Europe, Latin America and Asia—linked their currencies to sterling. The United States dollar was allowed to depreciate in April 1933.

Four currency groupings thus emerged: (1) the gold bloc—France, Switzerland, the Netherlands, Italy (until 1934), Belgium and Luxemburg (until 1935)—maintaining the parity of their currencies and full convertibility; (2) countries maintaining an artificial parity by means of exchange control (Germany, Italy (after 1934), in varying degrees certain of the primary producing countries of Europe); (3) countries with depreciated and controlled exchanges (most Latin-American countries and some European countries such as Greece and Czechoslovakia); (4) countries with depreciated and free exchanges.

These currency developments had profound effects on the course of international trade and on commercial policies.

(iv) The countries of the fourth—and to some extent, American countries of the third—group were in a position to pursue policies of domestic reflation, without recourse to extreme measures of trade restriction. The fair degree of currency stability within the sterling area facilitated an expansion of trade between the members of that group.

The devaluation acted as an added barrier to imports from and stimulated exports to the countries with over-valued exchanges. These countries, whose position was thus seriously aggravated, resorted to increasingly stringent measures to restrict imports and encourage exports.

(v) Recourse to import quotas on a large scale was characteristic of the defensive measures adopted by countries of the "gold bloc." In France, there was a special reason for quotas, in that numerous items of her tariff had been consolidated for long periods.

(vi) In the countries practising exchange-control, quotas were supplemented by the rationing of foreign exchange for the purchase of imports. Exchange-control was rapidly developed into an instrument for the purpose of minimizing the need for, and maximizing the acquisition of, free foreign exchange. This purpose was achieved mainly through the use of bilateral clearings.

(vii) Clearings were first established in order to enable certain free-currency countries to collect the service of debts from and continue some trading with, countries with controlled currencies—particularly Germany, which declared a moratorium on the transfer of debt payments in 1934. The countries with controlled currencies established clearings in order to trade among themselves.

(viii) The closing of the established channels of trade and the breakdown of the world-wide multilateral system of settlements provoked attempts by many countries to develop their exchanges of goods and realize a system of settlement within restricted areas. Thus, the United Kingdom and France expanded their imperial trade. Germany sought new outlets and sources of supply in Central and South Eastern Europe and in Latin America. Certain of the smaller European countries endeavoured—though on the whole with small success—to expand their mutual trade by means of regional trade agreements.

The acute difficulties of settlement experienced by many debtor countries gave rise to the problem of "commercial access to raw materials."

(ix) With certain notable exceptions (for example, the efforts of the Oslo group), the above developments were accompanied by the creation of new or the extension of existing preferential systems and the emergence of new forms of commercial discrimination. By the Ottawa Agreements of 1932, and the Import Duties Act adopted in the United Kingdom the same year, a general preferential system within the British Commonwealth and the Colonial Empire was established. The German trading methods were frankly and flagrantly discriminatory. Through the use of exchange-control and quantitative restrictions, the M.F.N. clause lost much of its value in European commercial relationships.

The lowest point in the depression was reached in most countries around 1932/33. The four or five years that followed were a period of recovery, slow and uneven at first, rapid and general in 1936 and the earlier part of 1937. After a recession in 1937/38, the year preceding the outbreak of war was, in general, one of renewed economic recovery.

As we have seen, after the economic and monetary dislocation of the early 20's, emergency trade restrictions had been gradually relaxed and the old pattern of commercial relationships in part restored. The course of post-depression policy in Europe in the thirties was fundamentally different. Except during a short interval between 1935 and 1937—more especially after the devaluation of the "gold bloc" currencies in the autumn of 1936—the general tendency was towards the extension and consolidation of trade restrictions. Measures that had been adopted for defensive purposes became permanent instruments of offensive policy. Germany and Italy pursued autarky as a primary objective and exerted political pressure to bring the smaller countries of Eastern and South Eastern Europe within their economic orbit. In Germany and Italy and to a lesser degree their satellites, state control over foreign trade was extended to cover individual commercial transactions, and a centralized system of state regulated trading superseded the system of competitive trading by individual merchants.

A restraining influence on the spread of these tendencies was exercised by the United States under the Reciprocal Tariff Agreements programme of 1934. The United Kingdom, though not unaffected by the trend towards bilateral trade regulation, also threw her weight into the balance in favour of the maintenance of the basic institutions of an international trading system.

The new tendencies towards intensified trade restrictions and discriminations were denounced, as is related in Part I, by every important international gathering held between 1930 and 1939. Among the measures proposed as means to the desired ends, some related directly to commercial policies, others to the removal of the conditions underlying those policies. Proposals of the first kind were largely concerned with tariffs. The most important were:

(i) The Tariff Truce, as a first step to multilateral or simultaneous bilateral negotiations. This was rejected at the Geneva Conference of 1930, but, under strong representations from the United States Government, accepted by almost all countries for the period of the Monetary and Economic Conference of 1933. The "Oslo Group" in 1930 adopted a procedure for notification of, and appeal against, tariff increases within the group. It proved impossible to extend this practice or even (as proposed by the League Council in 1935) to obtain a general agreement providing for one month's notification of changes in tariffs or other restrictions.

(ii) The allowance of permanent exceptions to M.F.N. in case of agreements between groups of States for the purpose of reducing tariffs, urged by the Commission of Enquiry for European Union (1931) and the Preparatory Committee for the London Conference of 1933, as well as by the Montevideo Conference of American States (December 1933), and frequently taken up later, for instance, as part of the van Zeeland plan of 1938. The Ouchy Convention of July 1932, concluded between the Netherlands, Belgium and Luxemburg, was the test case. It failed, owing primarily to the refusal of the United Kingdom either to become a party or to forego its rights to benefit by the proposed tariff reductions.

(iii) Bilateral agreements, based on M.F.N., for the reduction of tariffs. These received the special commendation of the Montevideo Conference and, after the re-orientation of United States policy in 1934, found a prominent place in subsequent Conference recommendations as a practical and hopeful approach to the tariff problem.

In the latter part of this period, the Hull agreements brought about a reduction in tariffs affecting a substantial volume of world trade as well as an extension of the principle of equal trading opportunity.

(iv) As regards quotas, a gradual enlargement of industrial quotas with a view to their ultimate removal and improvements in the quota system so as to avoid discrimination were recommended (e.g. by the Economic Committee, 1933 and 1937). The replacement of industrial quotas by "tariff quotas" and the enlargement of agricultural quotas were likewise proposed (van Zeeland, 1938). A direct attack on quotas was made by the Oslo Group in 1937 under the short-lived Hague Convention.

(v) Payments agreements were recommended in preference to clearings agreements, so long as the retention of exchange-control made such arrangements necessary. As regards the method of decontrol, the League Committee on Clearings (1935) proposed that commercial transactions should first be liberated, private compensation encouraged and the free rate of exchange allowed to prevail in a gradually expanding field of operations. Between 1935 and 1937, there was a fairly widespread movement towards a simplification and relaxation of control measures along the lines adumbrated by the League Committee.

There were obvious limitations to what could be achieved by means of a direct attack on the problems of high tariffs, quotas and exchange-control. The really central problem was how to remove or attenuate the force of those depression factors that were considered by Governments—rightly or wrongly—to make the retention of such measures inevitable.

One important factor, it is true, was the severity of those very restrictions on the world's principal import markets. Conferences and Committees consistently emphasized the special responsibility of the richer and the creditor countries *vis-a-vis* those that were impoverished and indebted. An element in every programme, from Stresa in 1932 to the van Zeeland plan in 1938, aiming at the restoration of free exchanges in Central and Eastern Europe was the opening of the Western, and particularly of Western European, markets. Very little was done in this direction.

But no less vital were the problems of indebtedness, of the cessation of long-term capital movements, of "hot money", of currency uncertainties, of discrepancies between national price-levels and last, but not least, of low commodity prices. In very rough outline, the main recommendations of Conferences on these financial issues were as follows:

1) Currency stabilization was held to be of primary importance. The proposals in this sense put forward by the Preparatory Committee of the Monetary and Economic Conference failed when the United States was unwilling to enter into any undertaking regarding the future value of the dollar, but virtual dollar-sterling stability was achieved in 1934. Thenceforward, the best hope of extending the area of stable currencies was seen to lie in bringing about an orderly devaluation of the "gold bloc" and as many as possible of the controlled currencies. The attempt made under the Tripartite Agreement in 1936 to achieve this result was only partially successful owing to the subsequent decline in the French franc.

2) If an alignment of over-valued currencies was a condition of stabilization, it was also urged as a condition of removing the wide discrepancies between national price-levels which had arisen partly owing to differences in currency policy and domestic economic policies, partly owing to trade restrictions. While such discrepancies remained, the retention of controls to bolster up artificially high price-levels was clearly inevitable.

3) The raising of commodity prices was considered no less essential. This task was approached from various angles. In the early years of the depression, the most urgent problem facing the European Conferences appeared to be the collapse of the export prices of European agricultural products and various schemes for the revalorization of such products were proposed. These schemes came to nothing, although some help was forthcoming through the negotiation of bilateral agreements of different kinds between those countries and European importers. A more general approach was through international commodity controls, as proposed by the Preparatory Committee and a Commission of the Monetary and Economic Conference of 1933. The Wheat and Sugar Agreements of 1933 and 1937 respectively were the somewhat limited results of these efforts. The most important of the Preparatory Committee proposals, however, was to raise commodity prices through the reflationary effects of a cheap money policy. This policy, though not open to the "gold bloc" countries, was successfully pursued within the dollar-sterling area.

4) Debt settlement, with financial assistance to countries anxious to abandon exchange control and align their price structure by an orderly devaluation, was recommended by successive conferences. None of the general schemes of which such proposals formed a part came to anything; but outside support for the purpose of facilitating decontrol was forthcoming in the case of Austria and a few countries which relaxed their controls between 1935 and 1937, while a large number of provisional arrangements between debtors and creditors were made under the general pressure of events.

2. Reasons for the Comparative Ineffectiveness of Conference Proposals.

The restraining influence exercised by international Conferences and Committees and the aid which they afforded to those anxious to promote more liberal policies must not be overlooked. Among the developments in line with their recommendations, the most important were the historic reversal of United States tariff policy in 1934 and the drive for lower tariffs and M.F.N. undertaken by the United States in the years that followed. The League Economic Committee's defence of M.F.N. as the essential basis of peaceful international trading and the last barrier against all-out trade warfare may be described as a successful "rear-guard action". Tariff discrimination was throughout held in check even in Europe and although quantitative restrictions are inherently incompatible with M.F.N. and were indeed normally applied on the basis of reciprocity, there was a constant pressure on Governments to apportion quotas and foreign exchange on some basis of at least historical equity.

Other achievements to which international action contributed were: the Tariff Truce of 1933 and the agreements for consultation in regard to tariffs and other restrictions concluded between the Oslo countries; the reflation based on cheap money and depreciated exchanges carried out within the whole sterling area under the leadership of the United Kingdom, which was of the greatest importance in checking the trend towards further restrictions in those countries; the currency alignment of the "gold bloc" in 1936, followed by temporary relaxation of trade restrictions; the substantial improvements in the administration of quotas and exchange-control and finally the actual measures of decontrol taken by several countries between 1935 and 1937.

The influence of the inter-American Conferences, the Congresses of the International Chamber of Commerce and the League Assembly and Committees, was clearly salutary; that of certain other gatherings (notably the London Conference of 1933) was, as stated below, probably on the whole unfavourable.

The partial achievements of international action, however, only serve to qualify the failure to prevent the disintegration of the world trading system. The proposals of the Conferences either remained a dead letter or were applied on too small a scale or within too narrow an area to offset the opposing trends. In spite of the gradual recovery in economic conditions after 1933 and the removal or attenuation of many of the economic factors which had led to the imposition of quantitative restrictions, no substantial or permanent relaxation of such restrictions ensued. The political, centrifugal forces prevailed.

There was little hope of reversing economic tendencies once those political forces had gained momentum. But why did the efforts made in the early thirties to arrest the trend towards economic isolation fail?

The first answer to this question is that at the beginning of the depression there was a quite inadequate knowledge of the concerted measures between countries, or even within each country, by which recovery from a major depression might be brought about. The pressure of the social problems to which the depression gave rise forced governments to take some action, however piecemeal, at least to relieve distress. To eliminate as far as possible influences coming from abroad seemed to diminish for a time, at any rate, the economic dangers so obscure and so threatening. The proposals put forward with international authority for maintaining some measure of freedom in trade relations were directed rather against one of the secondary effects of the depression, namely the drift towards isolationism, than against the depression itself. And when constructive proposals for restoring economic activity—for instance, the cheap money policy recommended by the London Conference Preparatory Committee—were made, agreement on them could not be reached.

There was indeed in those early days no plan for concerted action to relieve the depression; the machinery for executing a plan, had there been one, was embryonic; there was no accepted corpus of doctrines for national action. *Sauve qui peut.*

The momentum of the depression was such that it could only have been arrested by courageous and constructive policies carefully timed and unhesitatingly applied by at least the major industrial countries acting in unison. But the momentum was uneven, and, as the League Economic Committee observed, "the situations which the crisis created in the several countries were so different that a concerted—or even analogous—policy was impossible."[1] It is clear from the context that reference is made here to political possibility and, in this sense, the weight of the argument can be appreciated if one contrasts, for example, the favoured position of France in the early years of the depression with that of the debtor countries who were desperately struggling with the transfer problem created by the reversal of the flow of foreign capital and the steep fall in the prices of primary products. Concerted action might have saved the situation if governments had known what action to concert; but it is at least improbable that they would have agreed on a programme of concerted action at a time when the shadow of the depression had scarcely crossed the frontiers of some of the most important of them.

Can we assume that concerted action might have been achieved, had the depression been less acute, had situations been more similar, had different countries not been hit at different times and in different ways, had the impossibility of escaping by purely national measures of defence been more fully understood? Clearly not. In the absence of any real knowledge of or unanimity of opinion regarding methods of combating depression, individual and cut-throat measures were to be expected. France, the United Kingdom and the United States of America pursued divergent policies on the basis of different and incompatible theories. In the United Kingdom, the new tariff became a vital element in a recovery based on cheap money and the abandonment of the gold standard; currency depreciation was conceived as an instrument of reflation in the United States; while French policy pursued the then orthodox deflationary course.

[1] Remarks on the Present Phase of International Economic Relations, Geneva, 1935.

If successful concerted action postulated agreement on questions of economic policy, at least between the leading Powers, it also postulated a degree of international solidarity far greater than at any time showed signs of developing—a willingness on the part of all countries, and especially the richer and more powerful, to abstain from defensive or discriminatory measures harmful to others, a willingness on the part of creditors to accept goods in payment of debt obligations, whatever the effect on their price levels and employment situation. But there were two other factors of steadily increasing importance working against the acceptance of the recommendations made in favour of more liberal trade policies during the depression: (a) the obstructions imposed by what were in fact the semi-concealed military policies of certain states; and (b) the inhibitions caused by recent experience which rendered many of the recommendations unacceptable. Of these inhibitions, by far the most important was the fear of inflation which was deeply imbedded in the minds of the public in all those countries that had passed through a period of hyper-inflation in the 20's. This fear, coupled with a widespread misunderstanding of the nature and causes of inflation led the governments of many of those countries to reject immutably all proposals in favour of devaluation.

The new restrictions were thus a consequence of the various forces brought into play by the depression (above all the political effects of mass unemployment), of the revival of old fears and of the lack of any agreed policy for dealing with the depression. They became entrenched as part of national recovery programmes and political systems and thus persisted in spite of the attenuation of many of the economic conditions that had produced them.

The breakdown of the Monetary and Economic Conference of 1933 (when some constructive proposals were put forward) was of fateful consequence for the subsequent course of economic policies. The world's hopes of finding a basis on which international trade could be revived were turned to that Conference. The very magnitude of those hopes served to enhance the psychological effect of the Conference's failure, which helped to confirm every country in the belief that it must solve its depression problems and plan for recovery itself, as best it could. But while recognizing the adverse psychological effects of that failure, it remains of course true that neither currency measures alone (in the narrow sense of that term) nor the reduction of trade barriers would have sufficed to restore economic activity or to put the international financial mechanism into working order. Indeed, no proposals which failed to deal with, for instance, the problem of short-term capital movements and the breakdown of the world system of multilateral settlements, could have proved more than a temporary palliative. To some extent it is true to say that the disequilibria in international trade were the cause of the trade barriers rather than caused by them and that to deal with the barriers alone would have meant mistaking effect for cause.

The economic aims of most national recovery programmes, elaborated and perfected in the years following the London Conference, were to find work for the unemployed and prevent a further fall in prices. The pursuit of these aims—which were held to require national insulation from outside economic influences—and the gradual aberration from them in certain countries under the influence of political motives provide the broad explanation of the new protectionism that developed in Europe in those years—the transformation of emergency defensive measures into permanent instruments of offensive economic policy, the emergence of autarky as a principal objective of policy, and the extension and consolidation of state control over trade. Quotas came to be used both as a means of stabilizing the domestic market and as bargaining counters in the struggle for foreign markets. Upon exchange-control, Germany and her imitators began to build up an entirely new system of regulated foreign trade, essential features of which were over-valuation of national currencies and bilateral clearings. The breakdown of the system of multilateral world trade following the breakdown of the world monetary system had started the movement toward bilateralism. The opportunity was seized by Germany to expand and stabilize her markets by imposing a system of rigid bilateralism on her weaker neighbours. To a limited extent, other economically powerful States also used their bargaining position to secure specially favourable terms and thus an advantage over third parties.

The movement towards autarky, particularly in Germany, Italy and Japan was at once a reaction to the repression and a preparation for war. The failure of concerted action had paved the way for militant nationalism. In the 'twenties, political uncertainty and instability impeded the advance in economic welfare which was desired by all; in the middle 'thirties preparation for war rather than economic welfare became the prime objective of the policy of certain governments. Under the threat of war, considerations of defence perforce assumed increasing importance even in the most peace-loving countries.

National "planning" and the regulation of foreign trade are interdependent. While every new restriction on imports encourages the "regulation" of the industry concerned, industrial or agricultural regulation is impracticable without a control of competition, domestic and foreign. Thus, the extension of national planning—a snowball process, each industrial plan postulating for its success the control of other industries—was inevitably accompanied by an extension of centralized control over foreign trade.

At an early stage in that process, direct quantitative restrictions and exchange control are found to be a useful adjunct to tariffs. At a later stage, such as that reached by Germany and Italy in the later 'thirties, when not only the character, the prices, the quantities, the destination and the provenance of goods crossing national frontiers but also all individual trading operations are brought under state control, such measures are essential.

The postulate of the conferences, that there was a general desire to abandon quantitative restrictions and exchange-control and to return to a system of relatively free and unregulated trading and to an international monetary standard, thus gradually ceased to apply. Many small countries, it is true, found the new tendencies not only immediately damaging to them but ominous for both their economic and political future. Several of them, as we have seen, made great efforts to relax quantitative restrictions in the period 1935-1937. But the growing preponderance of Germany in the foreign trade of Eastern and South-Eastern European countries and the German trading methods which raised their prices and thus reduced their competitive capacity in the free markets, made it well-nigh impossible for them not to accept their place in the German system. Moreover, the darkening prospects of war enhanced the danger of a flight of capital if controls were removed and discouraged the foreign credits that might have facilitated orderly devaluation and decontrol.

In the later 'thirties, the commercial policies of Europe were entirely dominated by the anticipation or fear of war. The rigid control of trade and of capital movements in Germany were an integral part of the mobilization of all national resources for military purposes. Clearings had likewise become an essential instrument for the economic and political control of dependent countries. The proposals that continued to be put forward by international bodies for the abatement of controls and a restoration of the international monetary system in Europe were part of the political endeavour to avert war.

In the years of depression and of recovery, what had been required to prevent the disintegration of the world trading system was a co-ordination of national economic policies and wholehearted co-operation between the administrations of the more important countries in the financial as well as the strictly economic sphere. The Tripartite Agreement of September 1936 was a step along the road of such co-operation; thereafter, further progress under the influence of the United States or the United Kingdom was still possible over a large part of the world. But in Europe and in the Far East, the political foundations for any liberalization of commercial policy had been shattered and the tendencies towards closed economies and rigid state regulation gained impetus from year to year under the exigencies of a near-war economy.

CHAPTER V

WERE THE RECOMMENDATIONS OF THE CONFERENCES MISDIRECTED?

The early post-war conferences contributed to the partial restoration of pre-war commercial practices; to a limited extent, they achieved their purpose. The recommendations of the World Economic Conference of 1927 regarding tariff policy exercised an immediate—though, as we have seen, very temporary—influence; they had the further merit of bringing home to Governments and peoples the fact, hitherto contested, that "tariffs, though within the sovereign jurisdiction of the separate States, are not a matter of purely domestic interest"; they called attention to a grave pathological development in the relationships between States.

But, if the analysis given in the foregoing chapters is correct, the 1927 Conference, in insisting on tariff reduction and in reiterating the demand for long-term agreements, tariff stability and the abandonment of the practices of commercial warfare, took too narrow a view of a highly complex problem. Had the Conference been held ten years later, there can be little doubt that it would have placed the need for joint anti-depression policies in the forefront of its programme. That could not have been expected in 1927. But in that year and throughout the earlier post-war years, commercial policy tended to be considered as a problem distinct and apart and not as an aspect of economic policy as a whole. That inherent defect in procedure and outlook was due no doubt very largely to the fact that international bodies were reluctant to interfere with issues which were considered essentially domestic and that the part of economic policy which was most clearly international in its effects was that dealing with foreign trade (but it is noticeable that less hesitation was shown in making recommendations on financial matters of a strictly domestic character).

This unwillingness to interfere with national economic problems accounts, in part, for the very general nature of the recommendations made. There was no endeavour to consider in detail the tariff rates or the general commercial policy of particular countries; there was no attempt to work out for any country a careful plan of industrial development. It is difficult to escape the conclusion, in the light of subsequent evidence, that much greater progress might have been made towards freer trade had more courage been shown. If international help had been offered to countries in the elaboration of a carefully thought-out plan of industrial development, if technicians, machinery and equipment on credit and possibly other capital assistance had been put at the disposal of governments, and the need for high tariffs on products of the new industries recognized, it should have been possible to incorporate in the whole constructive scheme an undertaking by the beneficiary governments to reduce tariffs on the products of other industries.

Such action as was taken to aid individual governments was confined almost exclusively to financial reconstruction. It is true that until monetary stabilisation had been achieved, all recommendations in favour of long-term commercial treaties were premature and were generally accepted as being rather ideological than practical. By 1927, monetary stability had been generally attained. How unstable the equilibrium was, was perhaps not fully recognized; but if there was a failure to insist sufficiently on the major causes of instability (reparations, the large French liquid balances abroad, United States tariff policy) that failure was one rather of degree of emphasis than of understanding.

The disastrous effects of uncontrolled budget deficits and inflation were manifest. The effects of loss of markets to industries in the Succession States or of demographic pressure were perhaps no less obvious though far less dramatic, and the need for international action to overcome these problems—as distinct from sympathy or exhortation—was no less vital.

There was again, in that period, a misunderstanding of the profundity of the changes which the war had caused or accelerated—the changes in economic structure and perhaps also the changes in the spirit in which policy was formulated and applied. The tendency to look back to 1913 still persisted. The doctrines advocated were inherited from a time when labour and prices were more mobile and economic fluctuations less violent, before the emergence of the new problems posed, for example, by the "Balkanisation" of Europe. During the course of the depression in the 'thirties, it became increasingly apparent that the expansion of trade would not have sufficed to secure economic progress —that indeed some solution of the problem of economic stability was a prerequisite of both the growth of trade and the promotion of economic welfare. The traditional doctrines, which continued to be preached with only minor qualifications and amplifications, were comfortably worn but not visibly threadbare. They implied through their generalization no special criticism of any single State. They were conservative, but cloaked with liberalism. They demanded little prior work and study.

The last point is of great importance. Neither the League of Nations, nor the International Chamber of Commerce, was adequately equipped to deal with the problems of commercial policy. No Conference or Committee could alone have considered the detailed rates or the special conditions governing the policy of particular countries, nor could it have worked out for each country with others co-ordinated plans of economic development which, by improving internal economic conditions and stabilizing prices and markets, might have provided the basis for a reduction and stabilization of tariffs. The headquarters staff in Geneva was altogether too small to undertake the detailed and constant spadework that would have been required. The need for such a staff was never clearly appreciated and indeed so long as it was assumed that, given good will and understanding, trade barriers would fall like the walls of Jericho, this was natural.

That assumption was based on the belief that tariff policy could be separated from economic policy as a whole, and that, since a general reduction in tariffs was in the economic interest of all countries, governments, when brought to realise this fact, would draw the necessary consequences. None of these postulates was valid. It was perhaps unfortunate that so little was done until the later 'thirties—when the opportunity for successful international action had passed—either to re-interpret such free-trade doctrines as may have become obsolete and therefore unconvincing or to bring home to the public in intelligible terms the importance of an expansion of international trade within the framework of a world trading system as a means to achieving an advance in economic and social welfare under conditions of international peace.

At the World Economic Conferences of 1927 and 1933, the aim of concerted action was conceived as being the conclusion of broad multilateral agreements. General multilateral conventions yielded positive, though limited results in achieving a greater measure of uniformity in national administrative practices or national laws or tax systems and in removing certain specific obstacles to international trade. But tariff barriers could only have been reduced by international convention if countries with wholly different tariff systems and levels had been prepared—as they not unnaturally never were—to apply some uniform system of pruning, such for instance as a given percentage reduction all round. In fact, the tariff concessions that might have been expected—and were desired—differed from country to country and for the purpose of achieving such concessions, negotiation between pairs and small groups of countries was the first essential step. It is of course true that, owing to the complex nature of multilateral trade, such negotiation would have greatly benefited from central direction and co-ordination.

Conference recommendations, especially in the 'twenties, had further weaknesses which require to be noted. They were frequently little more than formulae representing a compromise between divergent or ever conflicting opinions; they frequently concealed fundamentally incompatible aims and irreconcilable interests of the principal economic Powers in the matters of tariff policy; they were accepted by delegates and governments with every variety of mental reservation as to their practical applicability. They did not bind governments to specific acts of policy[1] nor were the Governments which endorsed them always competent to take the necessary decisions.

The proposals made after the middle 'thirties may, at first sight, appear unrealistic in the sense that they were based on the postulate that all countries desired, or could be induced by suitable concessions, to return to a free price economy and the pursuit of economic welfare. This fact, however, reflects nothing more

[1] Cf. in this connection, the vague drafting of the majority of the "Declarations concerning the Recommendations of the International Economic Conference," League of Nations document C.E.1. 45. Geneva, 1928.

than the inevitable dilemma confronting all whose role is to promote co-operation and dissipate conflict.

Let us now attempt a broad explanation of the paradox which constitutes the theme of the present study. The discrepancy between the recommendations of Conferences and the policies actually pursued, between the professions and the actions of Governments, was due largely to the fact that neither were entirely suited to the circumstances and neither were based on a clear or fully informed conception of the issues involved. In regard to policy, sectional pressures rather than impartial judgement, sectional interests rather than the public interest were too often paramount. Policy was misdirected as a result of such pressures, as a result of the immediate impact of a persistent series of external events—the depreciation of currencies, the threat of political trouble—and as a result of the inescapable ignorance of the form that economic forces, which only slowly revealed themselves, would take. National economic policies in consequence tended to be concerned with the determination of immediate tactics rather than with the formulation of a broad strategy. The recommendations put forward at international meetings, on the other hand, tended to ignore the tactical issues and concentrate on strategy, a strategy which was based on the principles and conditions of the first rather than the third or fourth decades of the century. Viewed from the angle of many European countries, they appeared rather as pious hopes than as serious recommendations in regard to immediate policy and they bore the stigma attaching to propositions stated in absolute terms but postulating conditions unlikely of fulfillment. Because they seemed to disregard the problems which national commercial policies were designed, however crudely and shortsightedly, to meet, they were so frequently ignored.

This explains why Governments and individual experts often behaved with apparent inconsistency, why the same people who recommended one line of policy at Geneva or elsewhere were often responsible for pursuing the opposite policy at home. Ministers, officials, economists and business men alike continued to think about the broad issues of commercial policy in the light of the economic and political conditions obtaining in the spacious pre-war era and desired the general re-adoption of long-run policies appropriate to those conditions. But they were obliged to act from day to day in the light of the pressing social and economic exigencies of the unstable post-war world. Mental adjustment to revolutionary change is inevitably a slow process; the real magnitude and scope of the differences between the pre- and the post-war world were concealed by many deceptive appearances of a return to normality in the 'twenties.

CHAPTER VI

CONCLUSIONS

The final purpose of this study is not simply to portray a facet of the history of commercial policy during the inter-war period nor to analyze the factors influencing that history; it is rather to consider the lessons for the future that may be drawn from that description and that analysis. These lessons are of two quite distinct orders: first, the broad conclusions that may be drawn regarding the practicability and desirability of alternative policies and secondly, more specific conclusions regarding the suitability of possible procedures for attaining the objects in view. It is convenient to treat those two classes of deduction in this order.

1. Conclusions Regarding Policy.

(a) The first obvious lesson resulting from both studies is that the chances of getting generally adopted a commercial policy designed to promote rather than to restrict international relations as a whole may be jeopardized in the first post-war months if governments fail to agree in advance upon some orderly process of decontrol and some financially and economically sane system of reviving the economic life of countries impoverished by the war. Commercial policy was distorted at the outset after the last war by the violent reaction to the danger of exchange dumping. The depreciation in exchanges was due very largely to the failure to appreciate that relief and the restarting of the machinery of production were a single problem or to consider the effect of the relief policies actually adopted on the power of States to obtain what was required for industrial revival.

There was indeed a general failure to take any concerted international action to achieve an orderly transition from war to peace economy. But this is the first problem that arises and cannot be considered in terms of commercial policy alone.

(b) Another of the two or three major causes of the failure to get more liberal commercial policies adopted was the continuance of political insecurity—caused in large part by war-bred political passions. It is clearly not possible to prevent—though something may be done by governments to allay and much to promote—international mistrust. It follows that the first essential for the achievement of commercial policies designed to promote trade, is the establishment of a mechanism for the preservation of peace so adequate and sure as to create confidence despite antipathies or mistrust. Until this is done, governments are likely again to shun the world and seek a wholly insecure security in isolation.

(c) But after the experience of the 30's, apprehensions resulting from economic insecurity have become at least as important as fear of the risk of the recurrence of war. Governments faced by the social pressures caused by sudden and serious unemployment or rapidly shrinking farmers' income endeavoured to secure freedom of action for themselves by rendering their national economies as immune as possible from external economic influences. Commercial policy cannot be considered by itself therefore. It must be considered as a part of the more general, constructive policies agreed among governments for the prevention (or mitigation) of economic depressions and assurance of social stability.

(d) Failure to concert such policies will involve the risk of the revival of the type of autarkic commercial policies which developed during the 30's and the replacement of a commercial system by a mechanism for economic warfare.

(e) The dependence of commercial policy on

(1) An orderly transition from war to peace economy
(2) Political security
(3) Economic security

are perhaps the three major lessons to be deduced from the commercial history of the inter-war period, but there are others of a somewhat different order that may clearly be ranked as of almost equal importance. Of these the first is the absolute necessity of adapting commercial policies to the circumstances influencing national balances of payments. Great wars inevitably affect many items in those balances, and the changes brought about may require a rapid and radical modification of commercial policies in order to allow the flow of goods to adapt itself to the new conditions. If creditor countries impede the import of goods with which their debts can be paid, if new obligations are created and no commodity provision made for their service, if debtor countries obstruct the export of the goods with which they may meet the service of their debts, disequilibrium must be caused which will influence the commercial policy of almost all states. In such a state of disequilibrium long-term commercial treaties cannot be concluded, and high tariff rates or quotas are likely to be employed with which to negotiate short-term bargains.

(f) The tendency after the last war for international bodies to take a restricted view of their right to concern themselves with the economic policies of States resulted in an arbitrary line being drawn between commercial policy and other aspects of economic policy and in the failure to consider the whole catena of problems—relief reconstruction, surplus capacity resulting from the specialization of industries working for the war, etc.—which arose immediately after the Armistice. It led to a failure also to put forward constructive proposals later to meet the need of countries anxious to promote industrial development. Adaptation to the longer term economic or demographic forces, some of which may be accelerated by war, cannot be accomplished by measures of commercial policy alone. To consider such measures independently of other measures necessary for economic adjustment, as was frequently done especially in the 20's, is almost certain to fail to produce any useful results. Thus, planning for industrial development requires more than the imposition of high tariff rates; the execution of such plans may require external aid, technical or financial, and may afford an occasion for a careful revision of the aided countries' tariff schedules. Such a revision may necessitate the raising of certain duties to protect the new industries and the lowering of many others to reduce costs. Trade is more likely to be promoted if the economic structure and economic needs of each country are carefully considered, than by general declarations regarding commercial policy alone.

(g) During the 30's, the fact that commercial policy was an integral and inseparable part of economic policy as a whole gradually became self-evident. Indeed, there was a certain tendency towards the end of this decade for those responsible for commercial policy to claim that trade could not be released from its shackles until the international credit and money mechanism had been restored, until the difficulties arising from international indebtedness had been solved, and for those responsible for financial policy to maintain that no monetary reform or satisfactory debt arrangements could be made while quantitative restrictions on trade continued in force. This apparent logical *impasse* was in fact a phase in the process of understanding the essential unity of the economic and financial issues; and the failure to abolish the restrictions was in the end not due to a lack of understanding of the technical issues at stake, which were very thoroughly studied, but to the unwillingness of certain States to promote political security or to abandon the new system by which they exercised commercial pressure. The essential lessons to be learned from the experience of the 30's would seem then to be not the difficulty of emerging from the sort of *impasse* that was created—granted good will—but

(a) that the pursuit of uncoordinated recovery programmes by great States is likely to involve a disruption of the whole mechanism of trade and economic relations in general and must inevitably do so if severe quantitative restrictions on trade are an integral part of such programmes;

(b) that any important market can, if it desires to do so, create price disequilibria between not only itself and the rest of the world but between markets largely dependent on it and the rest of the world, such as to set limits to the scope of multilateral trade; but

(c) that these limits do not necessarily preclude the maintenance of a free price economy in international trade (such, for instance, as that of the Sterling Bloc) among countries not within the orbit of the determinate influence of any country pursuing an opposed policy.

(h) The growing appreciation of the need to consider commercial policy in a wider setting resulted in two, in a sense contradictory, types of recommendation concerning agriculture—the first in favour of restricting the output of certain agricultural products, the second in favour of expanding the demand for foodstuffs by raising national standards of living and of nutrition. Though to some limited extent both types of policy were applied, the problem of agricultural excess remained unsolved, and the friction caused by the growth of agricultural protectionism was but slightly mitigated. But there is no evidence to show that had peace been preserved and time been available for the development of these policies, agriculture would not have been materially assisted by them and the incentive to protect weakened. The first line of policy, however, is essentially restrictive, undynamic and unconstructive, while the second postulates and endeavours to promote a dynamic society and general welfare. The success of the second naturally lessens the need, if need there be, for the first.

(i) The M.F.N. clause, which should have been a means for spreading the benefits granted under trade agreements, tended to some extent at any rate, to check the granting of such benefits. This seems to have been due mainly to three distinct causes: (a) the half-hearted belief in the assumptions underlying the clause and the greater freedom of trade that it was intended to promote; (b) the reluctance of Governments to grant any benefits, even indirectly, to countries which enforced a non-negotiable tariff and high rates or to countries with which political relations were strained; (c) the employment of M.F.N. rights to prevent the formation of customs unions, or the formation of preferential areas in Europe, especially when preferences were being increased elsewhere.

A repetition of conditions in the future similar to those which obtained in the period under review is likely to have similar results. A whole-hearted belief in the beneficial effects of the clause is clearly once more likely to be dependent on the degree to which political security and economic security and activity are assured and on the removal of the other objections to the clause. The complete abolition of non-negotiable tariffs would no doubt go far to overcome the second of the objections mentioned; but so long as basic rates in any important markets are out of line with those of other countries or with the logic of a balance of payments situation, objections to the clause are likely to be raised.

The third group of objections, that connected with customs unions, raises still more complex issues.

A greater freedom of trade in the aggregate may be attained either by a given degree of universal tariff reductions or by a given degree (or varying degrees) of reduction within specific areas. But the effects of these two alternatives may be widely dissimilar. The Peace Treaties, by increasing the number, decreased the size of the free trade areas and gave some rather restricted scope for their subsequent enlargement. The opportunity offered was not seized, and gradually vested interests within the areas to which that opportunity was offered and external opposition acquired sufficient influence to prevent agreements being reached. One result of this fact was the growth of the scepticism about the M.F.N. clause just mentioned; but the lessons of major importance to be drawn from this experience are (a) that if wider free trade areas are to be established, they should be created before peace-time vested interests have time to develop, and (b) that if either complete customs unions or preferential areas are to be given a chance of developing later, it would seem to be necessary to get certain safeguarding principles agreed upon in advance. The first of these two lessons is obvious and requires no exposition. Certain principles concerning the latter were discussed about 1930 but never formulated in an authoritative statement. The suggestions under consideration were that preferential unions between contiguous States or States having close economic affiliations might be recognized if (a) these states formed them in order to reduce rates of duty *inter se* and did not raise the rates against other countries, and (b) any other (such) country whose rates of duty did not average demonstrably higher than those of the contracting parties, could join the union by making concessions to those parties comparable to those which they had made to each other.

Were some such doctrine accepted as a generally recognized derogation from M. F. N., one of the grounds of objection against that clause would be removed. The acceptance of any such general derogation would not, of course, in any way preclude more radical derogations in specific cases.

(j) The last important point that falls to be mentioned here is one which forms a natural link between lessons regarding policy and lessons regarding procedure. The increased rigidity of the economic system in all industrial or semi-industrialized States results in any reduction in tariffs causing a greater shock and one more slowly absorbed than was the case fifty years ago. Consequently the opposition to changes is greater, and indeed the benefit that may be derived from a change must be greater than heretofore if it is to offset the increased disadvantages resulting from it. Those disadvantages are greatest in times of falling prices and unemployment. Hence the timing of tariff changes has acquired special importance and the procedure adopted is likely to affect not only the chances of success of any change in policy, but also the justification for success, to a greater extent than previously.

There was some tendency during the last twenty years to confuse the "young countries" argument with the "young industries" argument, and to assume that the latter only applied to "young countries." The actual force of circumstances went to show that highly industrialized countries were tending to reach a stage of economic evolution in which their dependence on capital goods industries made them peculiarly sensitive to economic depressions. These countries felt the need for protecting various forms of consumers' industries—"the light industries"—as an insurance against that risk. This tendency to seek greater stability in increased diversification may well make itself felt again and is indeed likely to make itself felt immediately after the war owing to the almost universal over-expansion of engineering and heavy industries.

II. Conclusions Regarding Procedure.

(a) When applied to complex questions, which affected different countries in different ways and to varying degrees, and to problems affecting the central issues of national economic policies, the method of general diplomatic conference and convention revealed serious limitations. A lesson may be drawn from the experience of certain modifications of this method attempted by the League:

(1) The limitation of such conferences to States especially concerned in a particular problem and anxious to secure immediate results through concerted action and agreements limited to those States. The Wheat Agreement of 1933 and the Sugar Agreement of 1937 resulted from limited conferences of this kind.

(2) The framing of conventions which were not intended to be signed and ratified but to be accepted by Governments as models or standards in negotiating and drafting subsequent bi-

lateral agreements. Where such a system can be applied, it has great advantages.. Not only does it achieve exactly that measure of uniformity which is compatible with national peculiarities and differences in economic and financial structure, but it is also dynamic: as one country or another develops, it is able—and, *ex hypothesi,* likely to find it expedient—to apply to an increasing extent the common principles laid down. This method has been used with remarkable success in the matter of double taxation.

(3) The establishment of standards or norms for adoption, as and when changes in national legislation were undertaken, or merely to serve as a guide for the formulation of policy in the future. This method was used, for example, in the case of Tariff Nomenclature.

(b) For the purpose of achieving tariff reduction, negotiations between pairs or groups of countries were clearly shown to be more efficacious than general multilateral negotiations, and an extension of the bilateral method may be found appropriate in the future. This might take the form of simultaneous negotiations between numerous pairs or small groups of countries, directed and co-ordinated by an international authority and facilitated both by multilateral consultations and, as occasion required, by multilateral agreements on specific subjects.

(c) Diplomatic conferences on complex subjects cannot themselves work out solutions or produce agreement but can only adopt solutions the general lines of which have already been worked out and agreed upon between all—or, at any rate, the principal—parties concerned.

(d) The existence of non-negotiable tariffs in certain important countries was an obstacle to the realization of the programme of tariff reduction laid down by the Economic Conference of 1927. The adoption of freely negotiable tariffs by all countries would mark a useful advance.

(e) Under the system of specific tariffs commonly employed on the continent of Europe, the burden of duties is reduced in times of rising prices and increased in times of falling prices. That system thus tends to aggravate every depression and contribute to the forces making for greater commercial restriction.

(f) Another fact that is perhaps not quite immediately apparent from what has been said above relates to the international equipment for the preparation of Committee meetings, Conferences, etc. Each national administration had at its disposal an elaborate administrative machine at home and consular officers and commercial attaches abroad, whose function it was to study trading conditions with the object of promoting national trade interests. But there was no similar international organization. Trade and trading policy continued in fact to be regarded wholly in terms of rivalry.

The officials of the League dealing with commercial policy never numbered more than half a dozen; there was no attempt at—indeed no possibility of—studying in detail the position of different countries on the spot or of keeping, as was required, in constant touch with national administrations throughout the world. There was only a very limited possibility of following the development of trade as a whole and quite inadequate equipment for following the trade in different commodities. The tendency of international bodies to generalize reflected in part the inability of Headquarters in these circumstances to make, in advance, detailed studies of the real issues, broken down into their component parts. That failure in turn reflected a persistent underestimation by governments of the magnitude of the task involved in any attempt to view world trade as a world problem.

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